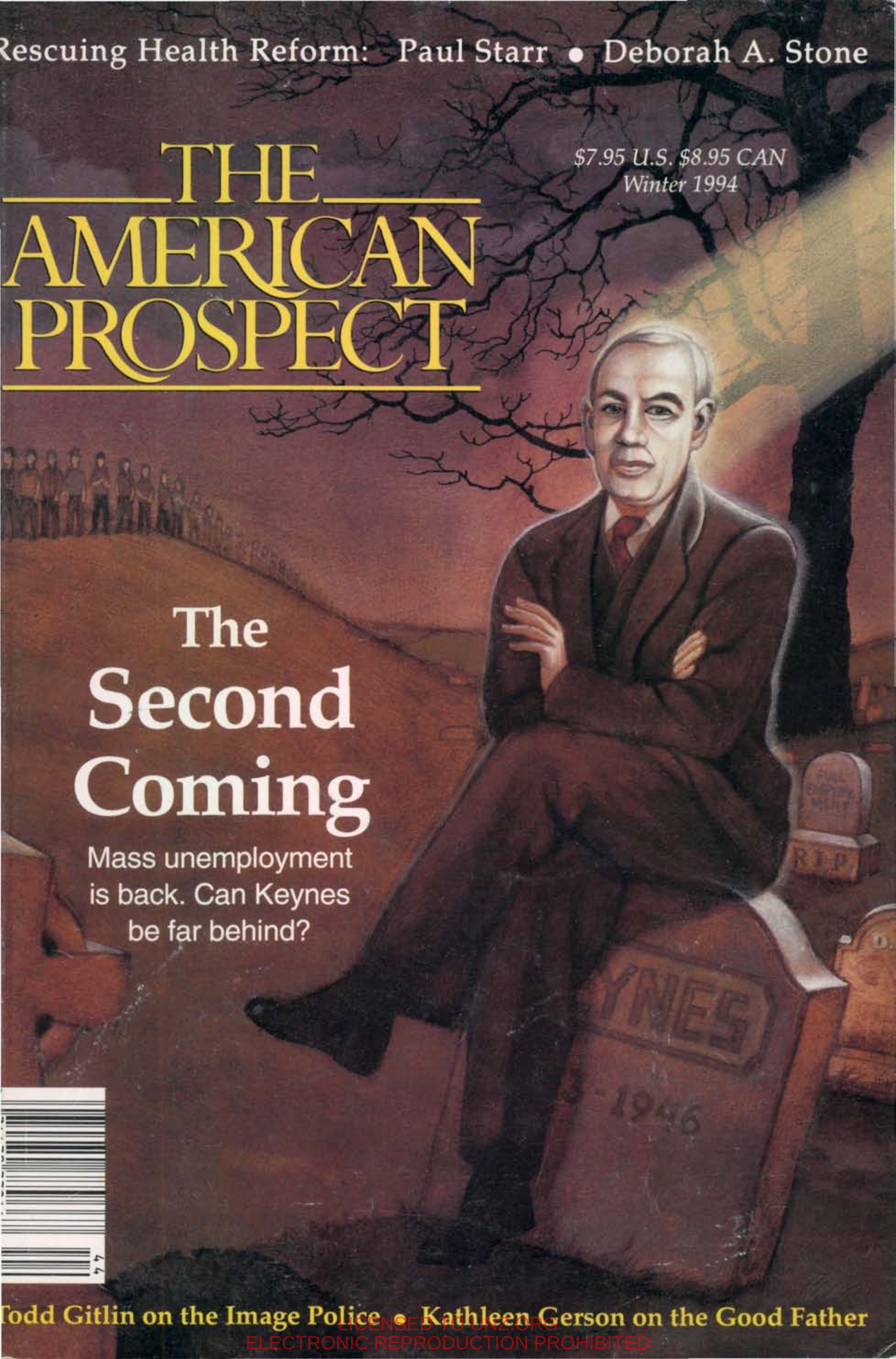
Rescuing Health Reform: Paul Starr • Deborah A. Stone

THE AMERICAN PROSPECT

$7.95 U.S. $8.95 CAN
Winter 1994



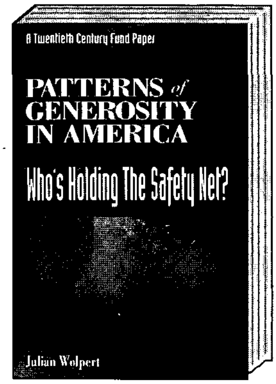
The Second Coming

Mass unemployment is back. Can Keynes be far behind?

Todd Gitlin on the Image Police • Kathleen Gerson on the Good Father

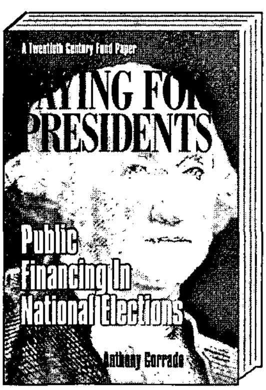
THE TWENTIETH CENTURY FUND

PATTERNS OF GENEROSITY IN AMERICA
WHO'S HOLDING THE SAFETY NET?



A Twentieth Century Fund Paper
by JULIAN WOLPERT
Published by The Twentieth Century Fund Press

Julian Wolpert of Princeton University's Woodrow Wilson School of Public and International Affairs investigates how decentralization, changing tax laws, and regional differences have contributed to greater geographical disparities in the provision of social, cultural, educational, and health services due to the wide differences in levels of wealth. He puts forth policy options for both government and the nonprofit sector that will remedy some of the regressive effects of earlier policies.



PAYING FOR PRESIDENTS
PUBLIC FINANCING IN NATIONAL ELECTIONS

A Twentieth Century Fund Paper
by ANTHONY CORRADO
Published by The Twentieth Century Fund Press

Anthony Corrado, a professor of government at Colby College, recounts the experience with the tax checkoff as a source of funding, looks at the effect of public subsidies on campaign fund-raising strategies, explores the issues raised by the advent of "soft" money, and offers recommendations for improving the campaign finance system in the years to come.

41 East 70th Street, New York, N.Y. 10021 (212) 535-4441. Twentieth Century Fund Press publications are available by telephone: please call 1 (800) 275-1447 or (202) 797-6258. When ordering, please give reference code OA14.

THE AMERICAN PROSPECT

A Journal for the Liberal Imagination

Winter 1994 Number 16

THE AMERICAN PROSPECT

Editorial correspondence should be directed to Editors: The American Prospect, P.O. Box 383080, Cambridge, MA 02238. We regret that we cannot take responsibility for unsolicited manuscripts. If you have an article idea, kindly send a short query letter rather than a manuscript. Our internet mail address is tap@world.std.com.

Printed in the United States. The American Prospect (ISSN 1049-7285) is published four times a year by New Prospect, Inc. P.O. Box 383080, Cambridge, MA 02238. Subscription rates for individuals in the U.S.: $25 a year; $40 for two years; $15 for students. University libraries: $60 a year; $100 for two years. Other institutions: $40 a year. Foreign subscribers add $6 a year. Send subscription and change of address information to above address. The American Prospect is distributed by Ingram Periodicals and Bernhard DeBoer, Inc. For information about reprints, distribution, or advertising call (617) 547-2950. Issue copies are available on 16mm microfilm, 35mm microfilm, and 105 mm microfiche through University Microfilms, Inc., (313) 761-4700. Second-class postage paid at Cambridge, MA, and an additional post office.

Contributors

JOHN KENNETH GALBRAITH is Paul M. Warburg Professor of Economics emeritus at Harvard University.

WILL MARSHALL is president of the Progressive Policy Institute, a think-tank affiliated with the Democratic Leadership Council.

JEFF FAUX is president of the Economic Policy Institute and coauthor of *Rebuilding America.*

DEBORAH A. STONE is on leave from Brandeis University as a fellow in the Program on Ethics and the Professions at Harvard University.

TODD GITLIN, professor of sociology and director of the mass communications program at the University of California, Berkeley, is the author of *The Sixties: Years of Hope, Days of Rage.*

WILL HUTTON, economics editor at *The Guardian*, was named U.K. political journalist of the year in 1993 and is the author of *The Revolution That Never Was*, an assessment of Keynesian economics.

WALTER RUSSELL MEAD is the senior policy adviser at the World Policy Institute at the New School for Social Research in New York.

JAMES K. GALBRAITH is the coauthor with William Darity, Jr. of *Macroeconomics*, a new textbook published by Houghton Mifflin.

JOHN HOERR, a labor reporter for many years, is the author of *And the Wolf Finally Came: The Decline of the American Steel Industry.*

KATHLEEN GERSON is associate professor of sociology at New York University and the author of *No Man's Land: Men's Changing Commitments to Work and Family.*

MICHAEL LIND, executive editor of *The National Interest*, is the former assistant to the director of the Center for the Study of Foreign Affairs at the U.S. Department of State.

MARSHALL GANZ, a longtime grassroots organizer, is a doctoral candidate in sociology at Harvard and teaches organizing at the Kennedy School of Government.

DEAN BAKER is a macroeconomist at the Economic Policy Institute.

JOHN EATWELL is a fellow of Trinity College, Cambridge, and principal Treasury spokesman for the Labour Party in the House of Lords.

ROBERTA LYNCH is deputy director of the Illinois Council of the American Federation of State, County and Municipal Employees.

ANN MARKUSEN is professor of urban planning and policy development and director of the Project on Regional and Industrial Economics, Rutgers University. She is coauthor of *Trading Industries, Trading Regions.*

LAURENCE E. LYNN, JR., professor of social service administration and of public policy studies at the University of Chicago, is coauthor of *The President as Policymaker: Jimmy Carter and Welfare Reform.*

COVER: **DAVID GROFF**

ILLUSTRATORS: **ROGER JONES** (page 43) and **DAN YACCARINO** (pages 79 and 101).

Back to the Future

Robert Kuttner

During the postwar boom, it seemed that mass unemployment had been cured forever. A mixed economy—based on activist government, deficit spending, public investment, strong trade-unionism, a welfare state, and a warfare state—kept the industrial West on a high-growth path. Living standards rose steadily. Satisfied voters returned to office politicians who believed in this model.

Not only is that economy dead, but the soil that nurtured it has seriously eroded. Today most politicians in the West believe their task is to expunge the mixed economy, not to reinvent it. As mass unemployment keeps rising and wages stagnate, it is bizarre to watch governments pursue freer trade, more deregulation, limitations on government, balanced budgets, and privatization, as if a pre-Keynesian free market would somehow restore high growth and full employment.

With the collapse of communism and the revival of ghosts of prewar nationalism in both Eastern and Western Europe, the stakes could not be higher. Accompanying the echoes of the economic privations of the 1930s is a chilling resurrection of the politics of that grim decade.

Against this background, it is worthwhile to reread John Maynard Keynes, who understood better than anyone how economic calamity led to political disaster. As Will Hutton reminds us ("Back by Popular Demand," p. 50), we need not a renewal of bloodless "demand management" but a reclamation of the whole Keynes—the Keynes who understood the connections between full employment and political democracy, the need to keep financial markets subordinate to the real economy rather than vice versa, and the very tricky relationship between global capitalism and a domestic mixed economy.

With the long-awaited second volume of Robert Skidelsky's biography of Keynes, we anticipate a Keynes boomlet. But given the bowdlerization of Keynes's economics since his death in 1946, it is important to reclaim the real Keynes. As John Eatwell suggests in his review essay ("Citizen Keynes," p. 115), though Skidelsky does a masterful job of recounting Keynes's life, he tends to diminish the full-throated radicalism of Keynes's work.

At the center of everything that we liberals hold dear is the logic of full employment and rising living standards. Without full employment, scarce government resources go to support the idle. Without full employment, taxpaying people with jobs credit their good fortune to private virtue and resent the unemployed. The social empathy and political solidarity necessary to sustain progressive politics and economics fragments. Without full employment, young people face stunted economic futures and generational warfare breaks out. It becomes more difficult to integrate minority groups into the mainstream economy, and tolerance of all kinds suffers. In short, without full employment, the other elements of liberalism fall apart.

Today unemployment is persistently high in all of the advanced countries. Employment is rising in the developing South, but often at the expense of wage levels in the North. Inequality is rising everywhere, as workers without advanced skills are thrown into competition with one another for a dwindling supply of routine jobs. Because of the turning away from

Keynesian insight, governments address these problems with inadequate conceptual tools and limited policy remedies.

Budget balance is held sacred, which both slows growth and denies governments necessary resources. In the United States, for example, the Clinton administration is placing great faith in the cheap money cure. Thanks to lower interest rates, unemployment has dropped somewhat. But millions of people are still having to take part-time, temporary, or minimum-wage jobs. Millions more can find no jobs at all. Keynes was passionate about low interest rates. He called for "the euthanasia of the rentier"—an end to the class that clipped coupons and cherished tight money; he looked forward to a time when cheap capital would almost be a public utility. But he viewed low interest rates as necessary, not sufficient, since one could not count on private entrepreneurs to invest adequately.

In addition, the pre-Keynesian emphasis on fiscal rectitude has left the moderately liberal Clinton administration competing with its conservative opposition to cut government outlay. A public investment package was abandoned early in the administration. Even programs that pass "New Democrat" muster, such as job training, national service, enriched education, or high-tech research, are funded at token levels if at all.

In recent speeches, President Clinton has boldly called for "economic security" as his thematic centerpiece. If people are to have the courage to change, they need confidence that jobs, and health insurance, and personal security will still be there. This is a marvelous strategy for reconciling economic dynamism with a civic social contract. But the cupboard is evidently bare.

When the North American Free Trade Agreement was before Congress, Clinton sought to reassure Democrats that workers displaced by the shift of jobs to Mexico would qualify for retraining and reemployment. But Clinton could find just $22 million for additional job retraining—less than one-twelfth of what George Bush had proposed to make NAFTA more palatable. Because of the obsession with greater budget balance, Clinton has promised centrist Democrats tens of billions of dollars of additional budget cuts, beyond those negotiated in the 1993 budget deal. These cuts will remove what little remained of new public spending and will reduce domestic outlays below the levels of the Bush administration in most categories. This, too, reflects pre-Keynesian thinking about economics.

Even if job training were funded at adequate levels, it is not at all clear that a "supply-side" strategy of improving the skills of workers would solve the problem of job availability and job quality. In 1940, unemployment was above 13 percent. By mid-1942, it had dropped to 3 percent. This did not occur because of massive training programs. It occurred because the biggest public works program in history—the Second World War—created a demand for workers, most of whom learned what they needed to know on the job.

If training programs are to do more than produce overqualified and underemployed workers, such programs must be married to a full-employment economy. Training can certainly be part of the strategy. When a worker takes leave to go on a training sabbatical, a slot is opened for another worker. Training also reduces labor-supply bottlenecks in certain specialties, which limits the tendency of tight labor markets to drive up wages and cause inflation. But retraining, like cheap money, can never be the whole full-employment policy for it doesn't create enough jobs. In addition, we need the massive scale of public investment that conservatives normally sanction only in wartime.

With the exception of Germany, where massive investments in infrastructure seek to bring eastern German living standards up to western ones, no government is pursuing Keynesian policies. Even in Germany, inflation-phobia combines Keynes-

ian public works spending with austere monetary policy, leading to persistent recession.

Reclaiming full employment as a centerpiece will require not just new strategies of public policy but a reconsideration of the principles of political economy. In future issues of *The American Prospect*, we will explore the several dimensions of the jobs question in great detail. For now, we wish to get back to first principles. We take pleasure in reintroducing, after far too long an absence, J.M. Keynes.

The Joys of Recession

John Kenneth Galbraith

Economics as a subject matter and, in its more than slightly fragile way, as a science, has two notable features. There is a plausible characteristic of the economy, well supported by both analysis and experience, that gets relatively little mention. And there is a related aspect of the economic system that is wholly proscribed in all reputable thought and discourse.

The little-mentioned feature is the possibility, even the probability, of an underemployment equilibrium—an enduring situation of poor performance. The wholly unmentioned fact is that, for a substantial and politically influential section of the population, this is wholly acceptable, even good, and certainly to be preferred to the relevant remedial actions.

It is three years and some months since the United States economy slipped into recession, with other countries of the developed world similarly affected. But popular and professional economic attitudes have rejected the notion that this is how the economy should be expected to perform. Instead, there have been weekly, sometimes daily, predictions of recovery. The notion that what we now experience should be taken as normal, if not subversive, is at least eccentric.

That recovery is not necessarily a normal expectation has the support not alone of what has happened in these last years but also of prior experience and a once-influential current of economic thought. There were the nine long and dismal years of the Great Depression, the latter brought to an end only by the massive infusion of government fiscal support that came with the war. And there was the compelling analytical talent that John Maynard Keynes brought to bear on that circumstance.

In the modern economy, Keynes held, there can be a strong desire to hold liquid funds—"liquidity preference." This is especially the case if income distribution is highly unequal; then individuals and firms are under no great compulsion to spend or invest. What is paid out from the price of goods and services as wages, interest, rents, and profit does not come back reliably to purchase goods and services, as the sacred tenet—Say's Law—had long held. It may be held unspent. In consequence, production and employment shrink until they are sustained by necessitous consumer spending and associated investment outlays, and there they remain. The fact of recession or depression and the accompanying fear and uncertainty then strengthen the liquidity preference and thus the continuing poor performance.

So, with much refinement and some qualification, spoke Keynes. An appreciable number of economists would still accept the point. But in most popular and much professional discourse it has lost standing. The economy is assumed to have within itself the power of recovery; government action can be damaging, for it can impair or destroy the confidence of the financial world. The financial mind is a very sensitive thing.

Complementing this professional and political attitude is the firmly forbidden fact. It is that many in the modern economy are quite comfortable with recession, the

underemployment equilibrium, and greatly prefer it to the measures that might bring it to an end. In the underemployment equilibrium, prices are relatively stable. People on pensions or Social Security find this entirely agreeable. Many professionals have similarly secure incomes. They too find relief from the threat of inflation. Some smaller businessmen do suffer; others, in contrast, are favored by a more eager and tractable labor supply. Farmers, once a large, even dominant part of the population, suffered severely in past times from depression. Now fewer in number, they are extensively released from worry about recession by government-guaranteed prices.

The most relaxed response may well be in the modern large corporate enterprise. There, from the corporate bureaucracies, one reads daily of surplus staff being shed. No mention is made of the larger number with secure position and income; and especially, there is no mention of the wholly agreeable situation of those who do the shedding.

The preference for recession, the underemployment equilibrium, becomes fully evident when attention is accorded the available lines of remedial action. The most benign is to lower interest rates. This, for the banks, which are the influential extra-democratic force in the Federal Reserve, means a lower price for money—the product that they sell. That is not welcome. Nor are low interest rates welcomed by the modern large and now influential rentier class. A friend of mine, fresh from several years' service with one of the regional Federal Reserve banks, tells of a large flow of letters pleading and protesting against moves toward lower interest rates. Better the recession. There is also a practical problem. Both the investment response and the consumer response to lowered interest rates are highly uncertain. In poor times people and firms do not reliably borrow, spend, and invest.

What remains is fiscal stimulus. Tax reduction can be set aside; its effect is also uncertain, and it is notably influenced by those whose taxes might come down. The one certain course that remains is positive job creation. Here the preference for recession is very strong. By its nature, this enlarges the role of government. To this there is much opposition on quasi-religious grounds. And in a purely secular vein it holds, or is thought to hold, the threat of higher taxes at some future date. Better the resistance now.

In killing the very modest Clinton stimulus package last spring, Senator Bob Dole spoke for a very influential constituency—one, it might be noted, that owed much to government social and economic initiatives. Social Security, bank and savings-and-loan insurance, and farm price supports with marked effect in Kansas were what allowed Bob to rise in opposition.

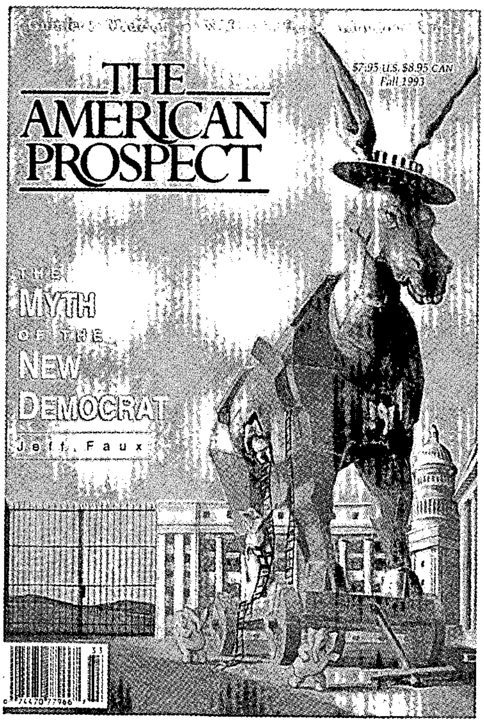
My view on these matters will be reasonably evident. In the depressive aftermath of a speculative episode, as after the 1980s, there are certain economically curative effects of time. Debt is paid off or defaulted; firms emerge from bankruptcy; a new generation emerges in the world of business and finance, confident in the belief that they were intended by divine choice to be rich. Nonetheless, the possibility of an underemployment equilibrium must now be accepted. And this being so, there must be stimulative public expenditure and employment to break out of it. There is a time for talk of deficit reduction; it is when the economy is strong and the speculative mood is strong in the land. Not now.

Those who are untroubled by the underemployment equilibrium do not say so. There can be no openly expressed preference for a stagnant economy; God forbid. But let it be said. This will be a source of discomfort to the comfortable, a worthy goal in itself. And it brings us to the hard truth: the modern economic dialectic is between those who are quite comfortable with recession, the underemployment equilibrium, and those who painfully, even tragically, are not. And it is in the interest of these last that we must embrace the only plausible remedial action.❖

Friend or Faux?

Will Marshall

Jeff Faux's "The Myth of the New Democrats" (*TAP*, Fall 1993) is illuminating—but in unintentional ways. It highlights the unresolved tension in *The American Prospect*'s editorial persona: though dedicated to rethinking old liberal assumptions, the magazine often shies from conclusions that defy liberal orthodoxy. *TAP* thus oscillates between



earnest stabs at policy innovation and purse-lipped attempts to suppress heresy and enforce liberal dogma. Faux's polemic falls in the latter category.

Still, a *TAP* cover story on the New Democrats and the Democratic Leadership Council (DLC) represents progress of a sort. The exercise forces Faux to grapple with New Democrat ideas on their merits rather than simply dismiss them as "conservative"—a favorite tactic in the left's politics of evasion. Honest debate might even advance the cause New Democrats share with *TAP*: the reconstruction of contemporary liberalism as a progressive force for national purposes.

Faux accuses New Democrats of being abstractly philosophical, substantively thin, little more than crypto-Republicans and yet, in the end, not all that different from traditional liberals. Confused *TAP* readers can judge for themselves by reading the Progressive Policy Institute's (PPI) *Mandate for Change*. Oddly, Faux never mentions this key New Democrat manifesto, rummaging instead through old news clippings to make his case. That's a shame, for *Mandate* sets out, in ample detail, policy innovations that challenge what candidate Bill Clinton acidly called the "brain dead politics of both parties."

What Faux essentially asks is, Why do we need New Democrats? But he doesn't want to hear the answer: that the party's establishment has been too busy defending the status quo—old policies and old programs—to adapt liberalism to such new realities as the globalization of commerce, the shift from mass to flexible production, the spread of information technologies that undermine the authority of central bureaucracies, and the impact of suburbanization on American politics. These changes require a fundamental rethinking of the liberal enterprise.

Unfortunately, for many Democrats solidarity, not adaptation, remains the overriding imperative. But solidarity won't ex-

pand the party's shrinking base. On the contrary, the evidence shows that exactly the opposite takes place—that yielding to the demands of pressure groups undercuts Democrats' ability to set broader public goals, and in so doing has turned many middle-class voters against us.

DLC Democrats are trying to move liberals beyond this self-defeating, circle-the-wagons mentality. Their initiatives—public investment, voluntary national service, youth apprenticeship, community policing, entrepreneurial government, and social policies that reinforce work and family—are intended to unite the interests of the party's core with those of an increasingly suburban national electorate.

Liberals seem embarrassed by this effort by New Democrats to bring these once and future Democrats—largely white and middle class—back into the fold. The underlying assumption, which Faux makes explicit, is that such voters are inherently reactionary—never mind that the working middle class was the party's mainstay from Andrew Jackson through Lyndon Johnson. Faux derisively calls these folks "Bubbas," though of course Northern ethnic whites have also deserted the party in droves; witness the recent election results in New York and New Jersey. (Perhaps he has forgotten that white union members gave half their votes to Ronald Reagan.) The inevitable conclusion here is that fighting for votes in the heart of America's middle class would somehow sully the party's purity. Left-liberals dream instead of a rainbow coalition that pointedly excludes white males. Such intolerance—at once undemocratic and politically obtuse—is what makes the New Democrats' base-expanding strategy so vital to the future of progressive politics.

That strategy begins with political realism. In the *Politics of Evasion* (1989), PPI argued that the party's losing streak in presidential elections was not a series of flukes but instead reflected a deeper syndrome—the replacement of the New Deal's middle class populism after 1968 by a new paradigm of special interest liberalism. According to authors William Galston and Elaine Kamarck:

> In the past two decades, liberalism has been transformed. The politics of innovation has been replaced by programmatic rigidity; the politics of inclusion has been superseded by ideological litmus tests. Worst of all, while insisting that they represent the popular will, contemporary liberals have lost touch with the American people. It is this transformed liberalism that we call "liberal fundamentalism," on which the electorate has rendered a series of negative judgments.

Notwithstanding Faux's revisionist account—which fancifully casts George McGovern, Walter Mondale, and Michael Dukakis not as liberals but as DLC-style centrists—the 1992 election results confirmed PPI's analysis. Clinton presented himself to the voters as a "Different Kind of Democrat," one who at last understood and sympathized with "the forgotten middle class." Clinton's was the most politically incorrect Democratic primary campaign since Robert Kennedy's in 1968. Like RFK—the prototypical New Democrat—Clinton refused to sentimentalize the poor or condescend to black Americans by treating them as a monolithic bloc with one set of opinions. He stressed economic opportunity and mobility rather than wealth transfers, took a tough-minded line on crime, welfare dependency, and international security issues, and called for a new ethic of personal responsibility to temper demands for entitlements. He avoided divisive litmus tests that have frustrated the party's quest to rebuild an alliance between working middle-class whites and blacks.

Inconveniently for Faux, the 1992 nomination contest offered Democrats a clear choice between unadulterated liberalism and Clinton's amalgam of traditional and New Democrat themes. Anointing himself the "real Democrat" in the race,

Senator Tom Harkin ran as the unapologetic apostle of liberal fundamentalism. He followed the classic "unite the base" strategy, only to find that even liberal primary voters had lost faith in electoral appeal of the old redistributionist nostrums.

The problem is not just an ossified liberalism, however; the dominant ideas of both parties have outlived their time. Americans are loath to choose between Democrats' special interest liberalism and Republicans' "neocapitalism" (the term is Robert Bellah's). They despise the Washington political game, in which the two sides seek to sharpen partisan differences rather than bridge them so that the nation can solve its problems. As E.J. Dionne wrote in *Why Americans Hate Politics*, people believe that "liberalism and conservativism prevent the nation from settling the questions that most trouble it."

Liberals seem embarrassed by the New Democrats' effort to bring largely white and middle-class voters back into the fold.

New Democrats look beyond the left-right debate to a new synthesis that combines the valid insights from both sides in a new agenda for progressive reform. Consider the following examples.

Enterprise Economics. Notwithstanding Faux's claim that New Democrats subordinate economic to social policy, the first four chapters of *Mandate for Change* elaborate an "enterprise economics" tailored to the new requirements of global competition. PPI's Robert Shapiro and Doug Ross (now an assistant secretary at the Labor Department) maintain that the globalization of capital markets and production undermines both supply-side efforts to increase investment by cutting taxes on investors' profits and traditional liberal policies to pump up demand or micromanage the distribution of resources among industries.

Enterprise economics replaces obsolete "tax and spend" policies with a new strategy of "cut and invest." To make U.S. firms and workers more productive, it calls for substantial new public investments in education and job training, research and development, transportation, communications, and other public infrastructure systems. But New Democrats would pay for these investments by cutting and rechanneling unproductive federal spending rather than by raising taxes on the middle class.

The hard truth for liberals is that deficit reduction is a prerequisite for expanded public investment. Large, permanent federal deficits disable progressive government. Only by showing the ability to discipline federal spending and distinguish between consumption and investment can liberals regain the public's trust. Moreover, liberals should, on principle, stop defending tax-and-spend subsidies and trade and regulatory protections for particular industries or for wealthy people. They insulate firms from the competitive forces that drive flexibility and innovation, and so leave workers less equipped to succeed in a global economy.

Faux makes a fair point that New Democrats have not solved the deepest economic riddle facing the country: the slowdown in U.S. productivity growth since the early 1970s and the resulting stagnation of family incomes. We're working on it. One thing, however, is certain: Faux's prescription—huge new dollops of federal spending—won't do the job. The federal government has been running deficits of $250 billion and more for years; there is no evidence that higher federal spending and even larger deficits would strengthen the economy. On the contrary, greater deficit spending would bring higher long-term interest rates that would slow the economy, and its stimulative effects would be diffused throughout globalized markets. The truth is, economic models that prescribe mindless budget cutting or heedless deficit

expansion are equally antique.

Trade Expansion. Support for liberal trade is one of the Democratic Party's most venerable principles. It is also essential to reviving the U.S. economy: from 1986 to 1990, 25 percent of U.S. job growth came from expanded exports. Yet Faux and congressional liberals made common cause with Ross Perot, the hierarchy of organized labor, right-wing nativists, and others to demonize the North American Free Trade Agreement. In part, opposition to NAFTA stemmed from valid fears of the often harsh impact of globalization on traditional manufacturing. Let's be candid: it also reflected labor's determination to save specific jobs in specific industries, even at the expense of U.S. workers' general interest in expanding markets for their products.

This is old-fashioned protectionism, however much you dress it up with high-minded concern for the environment or for the wages and working conditions of Mexicans. However, the conservative alternative—global laissez faire without so much as a glance back at the people and communities caught in the crosswinds of economic change—isn't any better.

New Democrats aim for a new synthesis on trade that acknowledges both the benefits of trade expansion as well as the jarring effects of global competition on some U.S. workers, industries, and communities. This approach envisions a new compact with American workers aimed at providing new sources of job security to replace those now dissolving under the pressure of international competition. It would include, for instance, school-based apprenticeship to help non-college youth acquire career skills and a new "employment insurance system" to help vulnerable workers get access to education and job training. Reinforced by reforms of our education, health care, and welfare systems, such initiatives can endow U.S. workers with the resources, flexibility, and security they need to brave the challenges of global competition.

Reinventing Government. Faux misreads the New Democrats' push for "reinventing government" as merely the latest call for streamlining federal bureaucracies. In fact, the goal is to revamp the organizational culture of the public sector. The premise of reinventing government is that top-down, centralized bureaucracies served useful purposes during the industrial era but are lumbering anachronisms in the information age.

The notion of entrepreneurial government sets off alarms on both the left and the right. Despite rising public spending, liberals view the failure of bureaucratic systems, whether public schools or welfare or federal agencies, as a function of financing; if only we spent more, we'd get better results. Conservatives oppose on principle government's intrusion into the domain of market competition and private preferences; just get government out of the way, and our problems will take care of themselves.

For New Democrats, the issue is not whether government should be bigger or smaller, but whether it can be made a more responsive, effective, and democratic instrument of public purposes. Examples of a new, non-bureaucratic model of public activism include the charter school movement for public school choice; "green taxes" or charges that harness market forces to make polluters pay to clean the environment; and actions by such Democratic mayors as Chicago's Rich Daley and Philadelphia's Ed Rendell to privatize some city services and inject competition into others. Vice President Gore's National Performance Review likewise proposes to hold federal managers accountable for results, make some federal agencies compete with private vendors, and reform the civil service system so that managers can reward federal workers who excel and weed out those who don't perform.

Americans believe government is broken and must be fixed. Liberals can try, against all evidence, to argue otherwise. The New Democrat alternative is to begin the painstaking work of reviving public confidence in progressive government by

making government work.

Social Policy. Faux chides New Democrats for focusing too much on social issues. Evidently, he sees crime, welfare dependency, illegitimacy, family dissolution, intergenerational poverty, and their concatenation in our decaying cities as chiefly economic problems: get the economy booming again and the rising tide will cover our blighted social landscape. Such economic reductionism overlooks the complex interaction of economics and culture. It drains politics of moral sense. And it ignores an overwhelming consensus that our social systems cannot offer real opportunity if they fail to reward sound values: work, family, individual responsibility.

TAP readers curious about how social issues and racial polarization have dimmed liberal prospects should refer to *Chain Reaction* by Tom and Mary Edsall, analysts with impeccable liberal credentials. But consider one especially dramatic example: the meltdown of urban liberalism. From Los Angeles to New York, the failure of largely Democratic urban coalitions to arrest the dreary cycle of violence, economic stagnation, and middle-class flight has allowed Republicans to run as insurgents against feckless and corrupt city machines. In Los Angeles, Republican Richard Riordan won on a reform platform that resembled Bill Clinton's own "New Democrat" agenda. In overwhelmingly Democratic Jersey City, Wall Street Republican Bret Schundler was reelected with 40 percent of the black vote and 60 percent of the Latino vote. In a close election that left the city sharply divided along racial lines, New York voters chose a Republican mayor for the first time since 1965. The evidence strongly suggests the decline, and perhaps the fall, of an urban politics characterized by high taxes, poor services, wealth transfers, and racial and ethnic entitlement—what Jim Sleeper has called "civic balkanization."

Faux seems oblivious to these maladies of modern, pressure group liberalism. New Democrats see them as emblematic of the poverty of a liberal materialism based on narrow interests and selfish demands for government entitlements. To succeed in the information age, Democrats must compete on the basis of broader ideas and principles that speak to the nation as a whole. The New Democrats' approach—which combines resolutely progressive ideas, nonbureaucratic ways of governing, and mainstream America values—moves the party in that direction.✦

The Evasion of Politics

Jeff Faux

Will Marshall makes my point. You wouldn't know it from his comments, but my article examined the contradictions in the New Democrats' claim that they represent a new progressive element in American politics. I concluded that the claim is false, and that its political appeal is in the intellectual and moral cover the claim provides for those who want to make the Democratic Party look more like the party of moderate Republicans.

Marshall does not engage the substance of my critique but instead offers a cliche-driven restatement of New Democrat ideology. Once again we have the familiar generalization about liberals. In the first three sentences, we have "liberal assumptions," "liberal orthodoxy," and "liberal dogma." And once again we have the hyped-up list of mainstream policies ("enterprise" economics, "entrepreneurial" government) that he claims represent new ideas but are, for the most part, watered-down versions of proposals liberals have been making for years.

Let's start with the phrase "the party's establishment," which Marshall uses to restate the core theory of New Democrat politics, that is, that the Democratic Party is run by "liberal fundamentalists" (else-

where described as minority groups, labor unions, and white, elite, liberal purists) who are busy defending the "status quo—old programs and old policies." His authority for this are the sweeping generalizations of New Democrat writers William Galston and Elaine Kamarck, whose work I criticized in my article. This is like responding to the case against monarchy by citing the opinions of George III.

Marshall's idea of who is in the Democratic Party establishment is curious. In Marshall's view, its members are not power brokers like Robert Strauss, Clark Clifford, or Warren Christopher, or the big-time lobbyists like Tommy Boggs, Stu Eizenstat, or Ann Wexler. Lloyd Bentsen, Tom Foley, George Mitchell, and Sam Nunn are not to be seen. Nor is the establishment Washington glitterati who show up at the Democratic Leadership Conference's $1,500-a-plate black-tie galas. Poor Bob Strauss, spending all that time at White House dinners, having presidents and cabinet officers snap to attention when he calls on behalf of his clients. All this time he thought he and his friends *were* the Washington establishment. No, in the Orwellian world of Will Marshall, Strauss and gang are the "New Democrat outsiders." In this world, the party's strings are pulled by unnamed minority groups and purist liberals defending unspecified "old programs" and "old policies." Could have fooled me.

Washington is full of lobbyists for every cause. But to anyone who knows the town, the idea that, say, the Coalition for Human Rights wields as much power as any of a hundred business trade associations or any one of the Fortune 500 is absurd. Yet this nonsense continues to play well in the media; pundits learn early that it is in their career interest to avoid excessive attention to who greases the skids in Washington. Among those who run and manage newspapers, stories about big business influence quickly become tiresome "old politics." Much more interesting is the story of how politicians tremble before left-liberals dreaming of their rainbow coalition.

Marshall dismisses, without challenging the evidence I presented, my conclusion that most recent Democratic presidential candidates ran centrist campaigns. Then he blatantly misstates what I said. My exact words were, "With the exception of McGovern in 1972, in five of the last six presidential campaigns the Democratic candidates—Humphrey, Carter, Mondale, and Dukakis—ran as centrists." But it is even more revealing that Marshall leaves Carter off of the list. My point was that Jimmy Carter was the first New Democrat. If Marshall actually had thought through his position, one would think this would be an important issue to engage. He explicitly defines the problem of the Democratic Party as having arisen after 1968 and, presumably, ending with the election of New Democrat Clinton. George McGovern—the liberal—was blown away after 1972 and since then his influence on the party has been virtually nil (although conservatives periodically drag out his name and beat it up in public). Carter, on the other hand, was clearly the most influential force on the party during the years since 1968. But Carter is inconvenient; so he is expunged from the New Democrat history books. Indeed, Marshall's only rebuttal to the evidence I offered on the recent history of the party was to accuse me of rummaging through "old news clippings." That's a lot of what history is about, Will. It helps to smoke out people who are constantly "reinventing" themselves.

Fortunately for the New Democrats, the pundits don't much care about history, either. So there is no challenge when New Democrats like Marshall pluck dead Democratic heroes out of the past and put them to work at their ideological ax grinding. In one fell swoop, Marshall presses into such service every Democratic president from Andrew Jackson to Lyndon Johnson. (Again, where is Jimmy Carter?)

The notion that the Democratic Party is now composed of something called "special interest liberalism" as opposed to the

romanticized past of a "New Deal middle-class populism" when people were united in the pursuit of the common good is, as I explained in my article, muddled. If ever there was a coalition of special interests, it was the New Deal: labor and farmers; minorities and racists; bureaucrats and small business. Coalitions are what achieving power in democratic politics is about.

> *In the real world New Democrats don't seem to be willing to put their money where their mouth is and pay for the programs.*

Marshall's attempt to cast the memory of Robert Kennedy into this ideological puppet show is particularly inappropriate. It was Kennedy who challenged the centrist Johnson and the Washington military and political establishment over the war in Vietnam. He also challenged the centrists of the day with the community development program inspired by his experience in Bedford-Stuyvesant. As the person who designed and ran that program, I can attest that its spirit and perspective are not captured in the New Democrat view of the world.

By bowdlerizing history and defining only the Left as "special interests" and limiting their criticism of Republicans to the far Right, New Democrats indulge in the conceit that they alone reside somewhere in the cosmos beyond liberalism and conservativism where the "national" interest lies. This is humbug. The sanctimonious position that *my* interests are "national" and *your* interests are "special" stops common sense political discussion. But perhaps that is the point. Because interests, ideas, and ideals are different, the democratic process is inevitably confrontational.

It is Marshall's particular point that this confrontation between the Left and the Right has become worse in the last 20 years, thus spawning a yearning for New Democrat centrism. But there is little evidence that the 1990s are more confrontational than the 1960s. There is, instead, plenty of evidence that people today are angry and frustrated with the political process. My article takes the position that these attitudes are mostly driven by the decline in living standards and anxiety about the economic future, and restoring economic growth is the central problem a progressive politics must address.

My point is not that economics is the *only* problem. Who does not agree that society is plagued by violence, family breakup, and irresponsibility? But New Democrats—like many social issue activists on both the Right and Left—seem to prefer endless pontificating about the state of the human heart, over which they admit government has little influence, to getting on with the business of creating jobs, rebuilding cities, and educating children, about which government can do something. There is, after all, a pretty clear link between economic distress and social dysfunction. But stimulating development and jobs costs money. It also means making *private* economic institutions, as well as public bureaucracies, more accountable to the communities in which they produce and sell. New Democrats do not seem to have much stomach for the task. It's much easier to pretend that poverty can be eliminated by yet another reinvention of the welfare system.

Ironically, the one political personality over the last dozen years or so who has consistently and credibly offered a message of individual responsibility to combat the violence and hopelessness of the inner city has been Jesse Jackson, political enemy number one for the New Democrats. Their fierce hostility toward Jackson strengthens my suspicion that for New Democrats lecturing the poor on their social obligations is less about solving the problems of the disadvantaged than it is about assuring the advantaged that social justice can be had on the cheap.

In this context, Marshall's formulation of "solidarity" versus "adaptation" is revealing. In common usage, these two words are

not opposites. Marshall puts them in opposition to set up a straw man: the Left as the obstacle to change. The obvious target here is the labor movement—for whom the term "solidarity" has a deep meaning.

No serious person argues against adapting to change. History and nature force adaptation. The question is, how? Here we come to a real issue. Like mainstream Republicans, New Democrats would have us face the unfettered global marketplace as individuals. The labor-liberal tradition in America, on the other hand, is one that stresses adapting to changes in the world as a community, as a nation. The theory is that through collective action, we can guide and master change, not simply respond to it. And if this means slowing down the rate of change to reduce the level of dislocation and human loss, then so be it. This is an old debate driven by differences of class and values. Like the Republican Right, New Democrats talk incessantly about "values." But as one probes for that word's operative meaning, it turns out that the highest priority is given to the measures of worth created by buying and selling in the international marketplace. On every major issue, New Democrats come down on the side of prices rather than values.

The debate over NAFTA illuminated this question as few recent issues have. In one sense, the debate was a test of Marshall's extraordinary claim that the New Democrats, with their conscious strategy of ingratiating themselves with big business, speak for America's "working middle class." Whatever one thinks about the general idea of freer trade with Mexico, anyone who actually reads the 2,000-page-plus package cannot help but be struck by the disparity between the way it provides detailed protections for those who invest and the way it leaves defenseless the interests of those who work. Indeed, that is its purpose. None of the governments involved need NAFTA just to lower trade barriers. They could have done that with a one-page letter of agreement.

Thus, the list of allies to the pro-NAFTA New Democrats contains few surprises: George Bush, Ronald Reagan, Jimmy Carter, Gerald Ford, Richard Nixon, Henry Kissinger, all living ex-treasury secretaries, the chief executive officers of virtually every major corporation, just about all of the national media, probably 90 percent of the nation's academic economists, and the massive resources of the U.S. and Mexican governments. In the world according to Marshall, NAFTA represents the spirit of working-class populism in revolt against the establishment. But polls taken just before the NAFTA vote showed that college graduates and those making over $50,000 were for NAFTA. Non-college graduates (75 percent of the labor force) and those making under $50,000 were overwhelmingly against it.

Perhaps this upside-down view of class divisions accounts for Marshall's odd comment that my use of the word Bubba was "derisive." The term was a political allusion that obviously went over Marshall's head. My specific inspiration was a puff piece for the New Democrats by conservative Fred Barnes in the *New Republic* in which Clinton is depicted as "crying out privately for more centrist input. On speech drafts and memos, he jots plaintive questions like, 'Where's Bubba?'" Get with the program, Will.

Of course, Marshall offers the obligatory sympathy for workers with "valid fears of the often harsh impact of globalization," and goes on to express New Democrats' pious hopes that the problems will be solved by retraining programs. Even if we strain our credulity by accepting this premise, the fact is that all we have is a promise that such programs will be available sometime in the indefinite future—if we ever find the money.

If New Democrats were serious about their own proposals for economic security, they would have insisted that we put these programs in place *before* NAFTA. Moreover, the demand of New Democrats that we give priority to deficit reduction over

economic stimulation guarantees that the economy will be operating at high levels of unemployment for years to come, and that long-term erosion in the living standards of the average American worker will continue. The fact is that without maintaining a strong demand for labor—"full employment" as the New Deal middle-class populists used to call it—the structural shifts necessary for this nation to successfully adapt to economic change will be constantly undermined by working-class economic fears.

Marshall's regurgitation of the New Democrat policy agenda is not impressive. As I said in my article, there is much in it that any sensible liberal supports. The practical problem is that in the real world, New Democrats don't seem to be willing to put their money where their mouth is and pay for the programs. The ideological problem lies in the bizarre logic that an agenda of compromise between Right and Left represents a new political philosophy *beyond* Right and Left, which in turn justifies drumming liberals out of the Democratic Party.

Like intellectual claim-jumpers, New Democrats seize policy innovations from anywhere and tout them as unique to themselves, even when they contradict each other. Marshall wants more spending and spending restraint. He wants new priorities and not a word about the still-bloated military budget. His listing of proposals is devoid of context, as if liberals haven't been fighting for years for public investment, job training, and welfare reform. Marshall announces that crime is a major problem in America as if no one else in the Democratic Party has ever noticed.

And what is the program? When writing for us policy wonks (look it up in *Mandate for Change*), it consists of a national police corps, community policing, the Brady Bill, and better funding for drug treatment and education efforts. Can anyone distinguish this list from the generic liberal strategy? I'll grant there is one difference: when it comes time to pander to middle-class anxieties, New Democrats celebrate the death penalty, coyly obscured for readers of *The American Prospect* as Bill Clinton's "tough-minded line on crime." This, we are told, is a new courageous and innovative progressive position.

For New Democrats, hardly a political sparrow falls from the sky that they do not claim is a portent for their cause. Marshall glories in Democratic defeats in Los Angeles and New York. Democrats lose in New Jersey and Virginia, and DLC president Al From tells the admiring *Wall Street Journal* that the election was "a great day for New Democrats." But isn't Virginia the home of the New Democrats? And if, as the New Democrats would have it, crime is the single most important issue, why did Governor Jim Florio lose, when his "tough-minded" position on crime was to the right of his Republican opponent? Polls showed that Florio won substantially among those who thought crime was New Jersey's biggest problem. Forgive me for suspecting that had Florio been reelected it would have been hailed as another vindication of the New Democrat strategy.

My response does not by any means exhaust the contradictions embodied in Marshall's letter. The interested reader will pick out more of them without much trouble—particularly those designed to convince us that the political cynicism of New Democrats really reflects their moral superiority over liberals.

There is, of course, always a case to be made for cynicism. So let New Democrats argue that it is smart politics for Democrats to attack liberal, labor, and minority constituencies. Let them try to persuade us that Bill Clinton can be reelected on George Bush's economic program. Let them make the case that Democrats should appeal to white males by stuffing more people into the electric chair.

But spare us the crocodile tears for the working class. And spare us the pretense that this represents a serious rethinking of liberalism.❖

Ad Missions

How Insurance Companies Sell Ideology

Deborah A. Stone

In a series of television ads sponsored by the Health Insurance Association of America (HIAA), Harry and Louise sit at the kitchen table discussing health reform. The ads are unremarkable, yet they have drawn the wrath of President and Mrs. Clinton. "It's time we stood up and said we're tired of insurance companies running our health care system," Hillary Clinton declared. Ira Magaziner termed the ads "unconscionable." Even some of the association's own insurance-company members took offense. New York Life called for a moratorium on the ads, and in the scuffle, Prudential became the fifth major insurer to pull out of HIAA.

While everyone debates whether the ads really do distort the Clinton plan or whether they are good or bad for insurers, the real issue has escaped notice. Insurers' advertising campaigns are aimed at something far deeper than a presidential proposal. They are meant to shape Americans' understanding of the very idea of insurance and to influence our cultural commitments to private enterprise versus public responsibility. Here is where insurance advertising will have its real impact on the kind of health insurance the country will have.

For years, commercial insurers have been promoting insurance in a way that makes people think of it as personal savings rather than mutual aid. In the 1970s and 1980s, this campaign of persuasion intensified, as women, gays, and the disabled challenged insurer practices of defining them as "uninsurable" or high risk. To counter growing public sympathy with these groups, HIAA, together with its life insurance counterpart, the American Council of Life Insurance (ACLI), ran a series of ads whose lesson was that fairness means each person should pay for himself.

One such ad (reproduced in "AIDS and the Moral Economy of Insurance," *TAP*, Spring 1990) shows a construction worker on a scaffolding and asks, "If you don't take risks, why should you pay for someone else's?" Another shows a man and woman playing basketball, and asks, "Why should men and women pay different rates for their health insurance?" The choral refrain at the bottom of these ads is always the same: "The lower your risks, the lower your premium." The series explains that people with healthy jobs shouldn't have to subsidize those with risky jobs and that men, who make fewer doctor visits in their middle years, shouldn't help pay for the medical care of women. A Northwestern National Life ad, pushing its managed-care plans, appeals to employers' fears that "even if your employees are healthy, insuring their dependents can be scary."

One can never be too careful about those other people who might be living dangerously, just plain sick, or in some way walking insurance claims. All of these ads teach the public that we are not responsible for each other. They subtly draw distinctions between "us" and "others," between people who deserve our sympathy and people who don't. People in different jobs, people of the opposite sex, dependents as opposed to employees—are all painted as different and dangerous. "They" are costly to "us." Why should "we" have to pay more

to take care of "them?" Isn't it fair if each person just pays for his or her own risk?

For many things, it is fair that we each pay our own way. People contribute to insurance plans, though, precisely because they fear they won't be able to meet the expenses of a big loss, even through personal savings. The very purpose of insurance is to create economic security by pooling large numbers of people together, spreading the risks of major losses to few people among the many. Insurance always entails some subsidy, in effect, from the people who don't incur losses to those who do. When insurers stratify their policyholders into very finely calibrated small groups with nearly homogeneous risks, they eliminate most of the risk-spreading and undercut the capacity of insurance to provide security.

Some people argue that pricing health insurance according to individual risk factors encourages people to act responsibly about their health, but there are other ways to provide such incentives without destroying insurance. Insurance should be about community solidarity and mutual obligation. Instead, insurers promote an ethic of self-sufficiency and deafness to the plight of others, even others who build our buildings, raise our children, and otherwise contribute to the commonweal. This politics of selfishness, more than anything else, undermines the possibility of health insurance reform.

The alternative, a politics of mutual responsibility, is suggested in a 1991 ad for Social Security. "Can you guess who's eligible for Social Security?" reads the caption under a photo of seven people, not a gray hair among them. The seven include an infant, a child, a teenager, and several adults; people of obviously different ethnicities and races; and males and females. The answer: "everyone." Alas, the Social Security ad is black-and-white and only half-page, not nearly so slick and eye-catching as the sometimes multi-colored, double-page spreads of the big insurers or HIAA. Can you guess who's winning the battle for the public mind?

Competing to the Death

The world of health insurance isn't what it used to be. Until about 1960, health insurance was largely dominated by Blue Cross-Blue Shield, the nonprofit plans that began health insurance in the 1930s. On one flank, they lost to large employers, to whom a 1974 law (ERISA) gave tremendous financial incentive to self-insure. On another flank, they lost to commercial insurers, who made most of their inroads by offering cheaper rates to relatively healthy employee groups and pulling them out of the large community-rated pools insured by Blues plans. Competition between the nonprofit Blues and the commercial companies killed community rating and destabilized the health insurance market. Millions of people are left totally uninsured, temporarily uninsured as they (or their breadwinner) move between jobs, or partially uninsured because their policies don't cover serious illnesses they already have.

For much of the postwar period, commercial insurers stuck together and sought their political fortunes via a unified trade and lobbying association, HIAA, while the Blues plans were represented by the National Blue Cross-Blue Shield Association. Beginning around 1990, fissures within the commercial sector became apparent, driven by increasing market segmentation. Ironically, it was probably the specter of health insurance reform that drove wedges into the industry ranks. Small and large insurers would be affected quite differently by various reform proposals, and larger companies were in a much better position to cede some of their traditional insurance functions and become managed-care providers instead.

Some companies began to see that the industry's notion of fairness was not widely shared. What risk-rating meant to the general public was that sick people and people with sick kids couldn't get insurance, or couldn't change jobs, or might "prevent" their fellow workers from getting affordable insurance. Political pressure

to constrain risk selection and cream-skimming was intense—even President Bush's otherwise very incremental proposal called for limits on pre-existing condition exclusions and on risk-based pricing. In November 1991, Prudential distanced itself from the industry's bear-your-own risk campaign with full-page ads in the *New York Times*, the *Wall Street Journal*, and other places. The new ad showed a chest X-ray, captioned, "Because he works for a small company, the prognosis for his fellow workers isn't good either." The ad went on to decry the industry practice of not insuring small companies with one or a few very sick workers.

Within HIAA, there was vigorous discussion of insurance reform, as commercial insurers were increasingly held to blame for lack of access to insurance. Since many of the approximately 300 member companies survived by cream-skimming and using low first-year bids to woo companies away from their current insurers, the organization could not muster a consensus on ending these practices. The bigger companies, meanwhile, were changing their market strategy. Instead of fine-tuned risk evaluation and pricing for small businesses, they sought to attract larger employers by offering managed-care plans that promised to contain health insurance costs. They were happy to give up risk-rating in order to gain public goodwill, but the smaller companies felt they were being thrown to the wolves.

In mid-1992, one of the largest health insurers, CIGNA, withdrew from the HIAA. On the day after Clinton's election, Aetna and Metropolitan Life announced they would pull out by the end of the year, and on December 31, Travelers left too. Prudential's recent announcement of its withdrawal completes the exodus of the so-called Big Five insurers from HIAA, an exodus that has cost the organization millions in dues and fees. The Big Five—CIGNA, Aetna, Prudential, Travelers, and Metropolitan Life—started their own lobbying organization, perhaps not coincidentally called the Alliance for Managed Competition.

Don't Call Me 'Insurer'

Anticipating an escalating shift to one form of managed competition or another, the Big Five have transformed themselves into managed-care providers in a big way. Aetna alone covers some 5 million people in managed-care plans, almost as many as the

6.5 million insured by Kaiser Permanente, the nation's largest and oldest health maintenance organization. Met Life covers 2.9 million, CIGNA 2.6 million, and Travelers 1.9 million in managed-care plans. Having positioned themselves to be managed-care providers under any managed-competition reform, they are now strong advocates of managed competition.

While Harry and Louise mull over the president's plan, and defenders of the plan castigate the ads, the large insurance companies are advertising to win over Harry and Louise's hearts. Within the industry, there is much talk of the need to sell to the "retail customer"—that's you and me—instead of to the employer, because patients are the ones who are going to be choosing among health plans. In publications directed at general audiences, such as *Time*, *Newsweek*, and *U.S. News and World Report*, large insurers' ads rarely trumpet cost saving or financial stability of the company anymore. Instead, they plump the insurer as caregiver, as medical innovator, as savior.

In October CIGNA changed its logo from a lifeless rectangle to a stylized tree, and in place of the motto, "We get paid for results," the company now dubs itself "a business of caring." Following a month of ads about the change of logo and the move toward caring, the November 1993 ads in various newsweeklies featured a photo of an infant and two pages of text about the company's dedication to caring for individuals.

An Aetna full-color, double-page spread pictures a child's drawing. The text begins: "When Lisa was born, her kidneys didn't work. So we helped Lisa's mother learn to care for her. It saved $200,000 in hospital costs. And let Lisa grow up at home." Another in the Aetna series pictures a wolf, a witch, a pair of beady eyes, and something labeled "the measles." The text begins: "Not all monsters are make-believe. Measles is a very real threat to your child. . . . That's why we're giving millions of dollars . . . to educate and encourage parents to vaccinate their kids." One might think Aetna was a medical research center. Indeed, James McLane, chief executive of Aetna Health Plans, recently told the *Boston Globe*, "We're not an insurance company; we're a managed-health care company."

Prudential is on the same bandwagon. One of its ads shows an anatomical drawing of a heart along with a valentine-like heart, under the headline: "If you ever need one, there's an insurance company that has one." A smaller headline claims credit for "a life insurance innovation that has made eleven life-saving heart transplants possible." Another Prudential ad in this vein shows a test tube and a pen: "It wasn't a

breakthrough in medical science that saved his life. It was one in life insurance." Like Aetna, Prudential is asserting its identity as a medical provider rather than an insurer. "We've increasingly moved from being a traditional health insurer to being a manager of care, which means we're in a different business than most of HIAA's members," a spokesman told the *Boston Globe* by way of explaining the company's withdrawal from HIAA.

Thus the very companies that strongly positioned themselves to gain from national health reform by growing large managed-care operations are now conducting a massive public relations campaign to get people to accept the idea of medicine and insurance rolled into one package. Until now, Americans have prized a system where the doctor was your advocate and thought only of your health, not somebody else's pocketbook. That system got us into trouble, and of course, doctors were thinking about pocketbooks all along, not least their own and their hospital's.

Still, for two centuries we have believed it's a good idea to insulate medical decision-making from financial concerns. It doesn't matter whether the incentives are to do unnecessary or harmful things to patients or to withhold necessary and beneficial care. There's something precious and right about striving to keep medical decisions untainted by money. If medicine really offers valid ways to relieve illness and suffering, people should receive precisely the care that is medically appropriate for them. Now we are plunging into a system that institutionalizes the blurring of medical and fiscal boundaries by merging the payer and the provider into one entity. One hopes it's not so easy to change our gut instincts, but this is exactly what one stream of insurance advertising is designed to do.

Choosers and Losers

Small insurers can't hope to play the managed-care game in the tough world of managed competition envisioned by the Clinton plan. No surprise, then, that their strategy has been to discredit the plan. Enter Harry and Louise. In the ad that most rankled the Clintons, an announcer intones, "The government is going to force us to pick from health care plans designed by government bureaucrats," to which Louise laments, "Having choices we don't like is no choice at all." This is the ad that provoked Hillary's angry outburst at a meeting of pediatricians. "One of the great lies currently afoot in the country," she insisted, "is that the president's plan will limit choice."

Whether the president's plan will limit choice, as Harry and Louise fear, is a matter of perspective: Whose choice, and compared to what? Universal coverage, if it ever does get phased in, would open up choices to people who never had any for lack of health insurance in the first place. The restraints on risk-rating as well as the subsidies for small businesses and the poor would surely increase options for people whose health insurance is now non-existent, tenuous, or partial. The Clinton plan undeniably widens choice compared with the status quo in the sense that many people will gain insurance, and all will have some choice of plans, limited, of course, by what they can afford.

Still, the very essence of the Clinton plan is to rein in health care costs by constraining patients' ability to choose their doctors, their specialists, and their therapies—the things that matter once people have insurance. Managed care abrogates many of these choices and gives them instead to managers. In turn, managers choose providers and therapies on the basis of economic criteria and studies of efficacy. True, the world of medical insurance is taking the express train to managed care even without Clinton's reforms, but it's disingenuous to pretend the plan won't accelerate the trend to managed care, or that managed care doesn't limit patients' choices compared with fee-for-service medicine.

Thus the HIAA ran the ads and the Clinton team got so exercised because both know the ads are potentially so effective at

scaring the middle class. For any reform to happen, the middle class—people like Harry and Louise who have some form of health insurance—need to be convinced to pay more to help those who don't have insurance. And for a managed-competition reform to win, Harry and Louise need to be persuaded to give up a lot of freedom to choose their doctors, and a lot of their doctors' freedom to choose their treatments. The Clinton reform will be lost if the middle class can be whipped up over choice.

Meaningful choice would be far greater under a single-payer system in which all doctors and all hospitals would be universally accessible. Single-payer plans, and the plans of most other developed countries, limit their health spending by setting national or regional spending targets, by limiting investment in expensive technology, and by negotiating fee and expenditure limits with physicians and hospitals.

In the end, patients in those systems have their choices limited, too, but they don't see or feel the limitations so directly. They can visit doctors of their choice, they don't have to get every referral and procedure authorized by an insurer—or worse, their own doctor who is now a "gatekeeper" for an insurance company—and they hear only about the choices their doctors think are available within the overall budget constraints. Ironically, the greatest foe of a single-payer system—the insurance industry—is invoking in its ads the kind of free choice that would be truly available only if the industry went out of business.

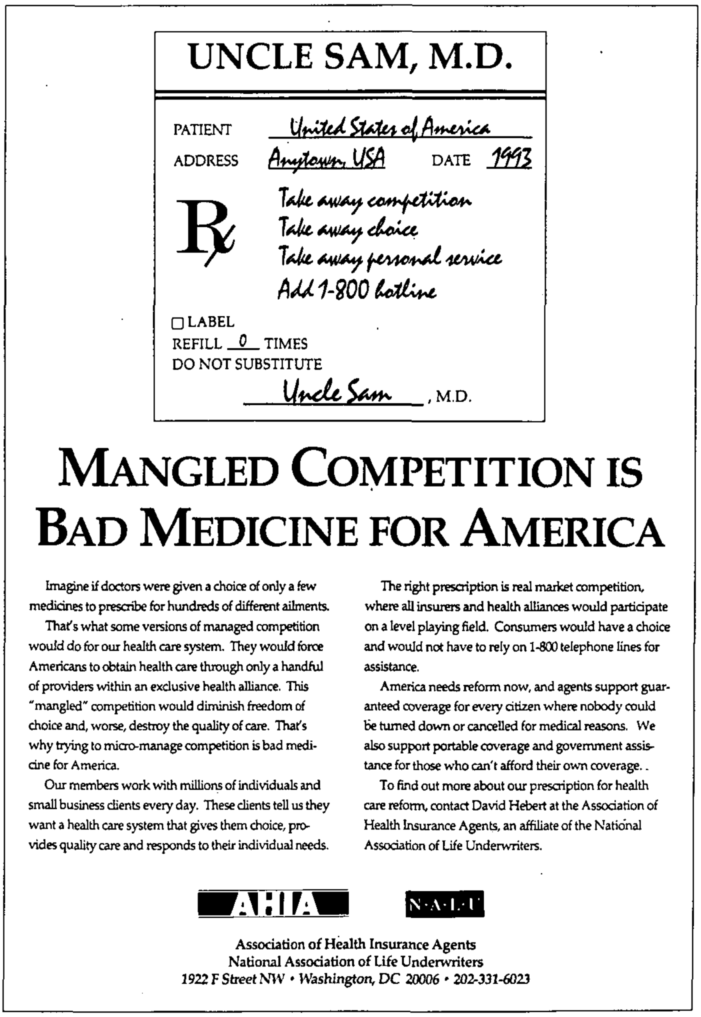
The Big Five companies know that choice is the hot-button for the public. An ad by their Alliance for Managed Competition lists ten reasons why "Americans will have more choice of health care providers" under managed competition. Among the reasons: people will be able to change doctors within plans, to switch plans, choose from a menu of plans, and to seek providers outside their plans.

In fact, most managed-care plans limit patients to a very small cluster of doctors within the plan's larger roster. Frequently, a patient's menu of specialists is limited to those in the same cluster as his or her primary care physician, and the menu can be tiny, with only one or two specialists in any field. Those plans that do allow use of doctors and hospitals outside the plan charge a lot more for the privilege and may require the patient to get the out-of-plan care authorized by an in-plan doctor. And of course, patients can switch plans only if they can afford to, and usually may switch only during the one month of the year that is defined as an "open enrollment" period.

While these companies are telling the general public that managed competition means choice of doctors, they promote their image as tough cops and good cost-controllers to employers and insurance salesmen. In business-oriented publications such as *Business Week*, *National Review*, *American Enterprise*, and *National Underwriter* (an insurance trade weekly), their ads feature their prowess in keeping down the employer's benefit costs through HMOs, preferred provider networks, utilization review, and managed care—all devices that do limit patients' choices about doctors, hospitals, tests, and treatments. According to an article in *National Underwriter*, "gatekeeper-model, network-based managed care" is the wave the future. HMOs that allow members to see non-plan doctors use these "opt-out" provisions only to gain enrollments now and plan to close this option after a few years. Insurers do seem to be willing to play the freedom-of-choice message in whatever key their audience wants to hear.

Choice may be the political symbol everybody is claiming for themselves in this debate, but there is yet another subtext of ads by both the small and big insurers: private enterprise is better than government. The Harry-and-Louise ads sneer at government bureaucrats, coercion ("the government may force us to

pick"), and incompetence ("the government sets a ceiling on spending and says, 'that's it'"). One of Prudential's ads pictures an X-ray of the American flag, labeled "Patient: The United States" and captioned "What this country needs is health care that's been given a thorough examination." The ad thus turns a private corporation into the country's doctor, as Prudential sets forth guidelines for sensible reform. A joint ad of the Association of Health Insurance Agents and the National Association of Life Underwriters (both groups of salespeople who would be made obsolete by health alliances) portrays a prescription form for a patient named the United States of America. The doctor (Uncle Sam, M.D.) has prescribed, "Take away competition, take away choice, take away personal service, add 1-800 hotline." Government, it seems, can only mangle the marvelous market.



Even when not explicit, the private-enterprise-can-do theme is there in most commercial insurance ads, simply because the companies and organizations are all touting their own strengths. How often do we see advertisements for Medicare or the Veterans Administration health system?

If we are to have any kind of health insurance reform, and certainly if we are to move toward universal coverage, we need a public ethic of solidarity. Citizens must believe that relieving illness is a community responsibility, rather than an individual misfortune, or worse, that it's just another taste for goods, to be satisfied with private purchases. We also need public confidence in institutions of governance. Pure market competition is the way to the present morass. Only public institutions—legislatures, agencies, and courts—can restrain for-profit insurers from competing in ways that undermine their ability to provide health insurance for all. On the surface, insurance ads pitch companies, their products, and their preferred political programs. We are the dupes, though, if we hear only their jingles and miss the deeper cultural messages debasing solidarity and public enterprise.

Letters

MITIgating Circumstances

To the Editors:

In "Up Against the Wall Street Journal" (Summer 1993), James Fallows and 32 other signatories object to my recent articles in *Policy Review* and the *Wall Street Journal* on national industrial policy failures in Japan. Readers interested in the full exchange between myself and the Gang of 33 are strongly urged to consult all three major documents (reprinted in full by *Policy Review*, 1-800-544-4843—ask for Zinsmeister-Fallows articles). Meanwhile, I offer these brief responses to the numbered arguments in my critics' letter.

Item One: The Gang of 33 provide a tortured explanation of how MITI's refusal of Sony's original transistor manufacturing proposal was a strategic ruse, part of a crafty collusion between MITI and Japanese businessmen to chisel even better deals with the Americans. This is a fascinating tale, but it has no relation to actual facts. Let me quote directly from Sony CEO Akio Morita's description of this incident: "In Japan, exchange control was very strong at the time, and we needed approval from the Ministry of International Trade and Industry (MITI) to remit the initial transistor license fee of twenty-five thousand dollars out of the country. The transistor was so new, and foreign currency was so scarce in Japan, which was just then beginning to accelerate its recovery from the war, that the bureaucrats at MITI could not see the use for such a device and were not eager to grant permission. . . . [Sony co-founder Masaru] Ibuka was eloquent on the possible uses of this little-known device, but it took him six months to convince the bureaucrats. MITI has not been the great benefactor of the Japanese electronics industry that some critics seem to think it has."

Item Two: The Gang of 33 intone that "in the view of some experts Japan's output of computers and computer-related products will pass that of the United States later this decade." I defy anyone to provide a list of such experts. My expert, Intel CEO Andrew Grove, speaks for almost all knowledgeable observers when he says of current Japanese computer manufacturers: "I find them a surprisingly ineffective force." Any observer with eyes to see can look around them today and note the absence of Japanese manufacturers from the industry's fastest growing segments. The Japanese have been wiped off the desktop, their small presence in portables is shrinking, and they have no influence in international workstation sales.

This section's feckless endorsement of hardware over brainware offers a choice glimpse into the zeitgeist of the industrial policy advocate. "The Japanese strategy of concentrating on manufacturing rather than on design and software," it is asserted, may "offer better prospects for long-term economic rents." Today this is an astonishing suggestion. Did all 33 members of the Amsden-to-Zysman family nap through the last decade's revolutionary powershift in computers and consumer electronics away from box build-

The American Prospect welcomes correspondence. Brief letters (250 words or fewer) are strongly preferred and stand a better chance of being published. Letters must include the writer's name, address, and telephone number, and may be edited for length. Letters should be sent to P.O. Box 383080, Cambridge MA, 02238.

ing and toward electronic design and software? The Japanese companies didn't. They are desperately trying to remake themselves.

Item Three: The indisputable historical fact is that MITI worked very hard for many years to get Japanese manufacturers out of the car-making business and can only thank their lucky stars that they failed. Soichiro Honda, for example, was warned by MITI that the idea of starting up a motorcycle company "bordered on insanity," and when he began to expand into autos in 1960 the ministry tried to block him. "Japanese bureaucrats tried to block us at every turn, " Honda said in 1991. "We would have been more successful had we not had MITI."

Item Four: The claim that American manufacturers like Hewlett-Packard and Apple are now just nameplating Japanese products is scandalously inaccurate. H-P now sells close to 60 percent of the world's computer printers, a market it stole almost completely from Japanese manufacturers. After the company sells a machine, it then sells cartridges and supplies that bring in two to three times that much more revenue over the device's lifetime. If H-P were simply fronting Canon products, Canon would be making these sales itself.

In the midst of this section, an extremely important concept pops into the Gangsters' argument: the admission that Japanese industrial policy has had "onerous effects." Up to this point the message has been all about how industrial policy is a good thing. Now suddenly there are "onerous effects" that the United States has been required to defend itself against. I suggest that industrial policy advocates are often very mixed up people, whose argument goes like this: the Japanese are scheming, colluding, market-closing, dumping, cartelizing fiends—and, dammit, we better become just like them.

Nowhere do I deny we have a trade problem with the Japanese, that Japanese protectionism has hurt the United States, or that strong U.S. pressure is called for to encourage the Japanese to complete their postwar transition away from mercantilism. But solving Japanese trade manipulation and proselytizing for national industrial policies are directly contradictory undertakings. The last thing anyone who wants squarer commerce between Japan and the United States ought to be defending is government industrial finagling.

In item four and elsewhere in my interlocutors' letter you will see displayed another central plank of the industrial policy platform: disapproval of the current globalization of manufacturing. Globalization, tantrum or not, is a central and irreversible aspect of contemporary economics. It has many benefits. And it is happening in every country.

If you buy a Toshiba laptop today, it will have an Intel microprocessor manufactured in California or New Mexico as its functional heart. Its memory drive and many other parts will very likely be from an American or Southeast Asian manufacturer. The internal software that makes it useful will be American. And, yes, when you buy an Apple or an IBM, it will also include "non-native" components.

Smart companies and countries are increasingly concentrating on adding knowledge to products, and leaving much of the low-value steel and silicon beating to poorer countries. If you consider this general practice to be a retrograde one, well, then it's time you started making all your own socks.

Item Five: The only figures that impress industrial advocates are the gross ones—how much product an industry puts out, the number of people it employs, and so on. (By the way, the crude dollar-denominated figures on steel sales cited in the Gangsters' letter are ridiculously misleading.) What they like to ignore are the large, hidden costs of the government subsidies, tariffs, import

limits, and other measures used to artificially build up industries. The costs of force-feeding the Japanese steel industry have been paid over decades and decades—by consumers in the form of higher prices, by taxpayers, by companies who were penalized by the government interventions (easy to overlook). The fact that some Japanese companies are now big, smoky, and selling lots of sheets and girders is no evidence that the industrial policy was a net success.

It's because MIT professor Paul Krugman is a liberal economist friendly to Clinton administration policies that I chose in my original article to quote his conclusion that MITI's steel buildup "reduced Japanese national income." I could just as well have cited Hideki Yamawaki's research showing that MITI's steel policy "often lacked an appropriate consideration of its impact on the efficient allocation of resources. . . . As a result it may have reduced domestic economic welfare." Or University of Tokyo and MITI economist Ryutaro Komiya's citation of MITI's steel interventions as "policies for which it is almost impossible to find any positive benefit from an economic perspective, yet about which the responsible bureaucrats are enthusiastic and raise a fanfare."

The invocation of Nippon Steel and USX is one more small tip-off to my critics' lack of current business understanding. USX has been a follower rather than a leader among U.S. steel producers for more than a generation. Nimbler companies like Nucor Corp. and Chaparral Steel Co. have been completely remaking the U.S. steel industry, and it is quite likely that Nucor will replace U.S. Steel as this country's largest producer by decade's end. Nucor and Chaparral already run four of the world's five lowest cost steel plants, according to a recent analysis by PaineWebber, and they have pulled the U.S. steel industry into a position of once again being more efficient overall than their Japanese counterparts.

Meanwhile, Nippon Steel is staggering under enormous excess capacity, and its crown-jewel Kimitsu Works doesn't even rank among the 40 lowest cost mills in the world at present, according to the PaineWebber study. The other big steelmakers in Japan are all in the same situation. "The Japanese steel industry is losing its competitiveness," says Masanari Iketani, Tokyo Steel's president. Innovation in Japanese steel is now coming from smaller companies that are quite explicitly following the lead of Nucor. Busy as they are trying to cobble together welfare packages for the likes of USX and Nippon, government industrial policy advocates on both sides of the Pacific have managed completely to miss this revolutionary shift to new efficiency in steel.

Item Six: No doubt, the Japanese government "desires" to build lots of "purely Japanese" jet and space-launch vehicles. The point of the matter is, pouring very large sums of public money down various ratholes hasn't made that desire any closer to reality. Aerospace is an industry that has been "targeted" longer, harder, and more wistfully than almost any other in the Japanese economy. Now where's the beef? All that has been produced is technical embarrassments and exorbitant costs to the larger economy. This clear lack of results is excellent evidence that when Japanese industries and firms succeed it is for reasons other than because government bureaucrats desired them to.

Item Seven: More phony numbers. Japanese airlines had high revenues and load factors in the past because government-erected walls allowed them to gorge off captive passengers. But now, new airport capacity and global regulatory liberalization are forcing the Japanese carriers to meet competition for the first time, and those easy loads and fat margins have disappeared. JAL's net revenues have fallen to a quarter of their levels of just two years ago. Its share of international travelers to and from Japan

has fallen from 30 percent to 24 percent over the last decade.

Item Eight: The Gangsters concede that Nippon Telephone and Telegraph is behind foreign counterparts. They then pip weakly that "in hardware and in services, the Japanese telecommunications industry is gaining in world competitiveness." That undocumented platitude may or may not be true. The real issue that the Gangsters completely ignore, though, is this: Why has NTT been a laggard up to now? The answer: because it has been a nationalized, highly protected instrument of Japanese industrial policy. If NTT is currently becoming more progressive and competitive, what accounts for the change? The answer: the company is being privatized, and cut off the government sugar teat.

Item Nine: Sorry, Gangsters—you're simply wrong that I'm "simply wrong." The Organization for Economic Cooperation and Development statistical periodical I pulled off my bookshelf for my agricultural labor force number ("Historical Statistics," OECD, Paris) lists "employment in agriculture as a percentage of civilian employment" as 8.5 percent in Japan and 3.1 percent in the United States in the year 1986. Whether marginally different figures from a different source or for a different year are available is not relevant. The point is, Japan, a country that has far less good reason to be involved in significant agricultural production than the United States (given the respective land bases), nonetheless has almost three times as big a chunk of its labor force toiling in farming. Why? Because of absurd government subsidies and controls that keep people growing rice in downtown Tokyo on plots the size of James Fallows's desk.

You will note my critics don't even mention Japan's big, obvious industrial policy disasters: the Japanese Railway, the HDTV debacle, Japan's weak pharmaceutical and biotech sectors (which have been relentlessly coddled and spoon-fed by MITI and the Ministry of Health), the satellite-broadcasting calamity that is just now unfolding (engineered by the Postal Ministry). America's industrial policy knights are strangely silent on Japan's shipbuilding, mining, smelting, and energy policy screw-ups. They don't mention the government's miserable highway and airport building programs.

One other important connection that industrial policy boosters seem unable to make is that between Japan's incestuous business-government ties and the rampant corruption that is eating away at Japan's political system. The last half-dozen Japanese prime ministers or prime-ministers-in-waiting have been dragged down by influence buying and related scandals. This massive rot is tied directly to Japan's use of industrial policies. It is because the politicos have so often arranged economic outcomes and picked business winners and losers that Japanese companies have gotten into the habit of routinely buying politicians, rigging rule making, and fixing bids. Enthusiasts for "government-business collaboration" ought to wake up to the fact that it has nearly been the death of Japanese democracy.

Perhaps most interesting of all, American industrial policy peddlers ignore the extent to which the Japanese themselves have grown chary of government-corporate fiddling. Even architects of the original MITI policies are now saying that modern economies are too complicated for government ministers to manipulate effectively. Privatization, deregulation, and reductions in government industrial meddling have become the order of the day in today's Japan.

The issue we are arguing over is not whether Japan is an economically impressive country. It is, in spades. The real question is, what has made Japan successful? Are a group of some 20,000 bureaucrats and public-sector wisemen responsible? Or does the credit belong instead to an extremely competent private economy and

culture? Studying the actual effects of the much-mythologized policies promulgated by MITI and other agencies makes it crystal clear that government planning is not Japan's secret.

Karl Zinsmeister
Ithaca, New York

James Fallows Replies:

Let me see how to put this politely. This argument has never been about Mr. Zinsmeister himself. In fields in which he has done first-hand investigation, especially American social policy, his work has often been insightful and provocative. But when he writes about Japan, Mr. Zinsmeister is at the mercy of secondary sources, which he has no way of putting in perspective.

For example, he fishes out quotes from Akio Morita and Andrew Grove, apparently not realizing that the overwhelming preponderance of both men's work runs directly counter to his view. Morita has his own reasons for denying that MITI had a significant role in Sony's rise; even so, Morita has blanketed Japan for the last three years with articles and speeches about the power of Japan's government-business collaboration. Andrew Grove, like his late colleague at Intel, Robert Noyce, has been a powerful advocate of government-business cooperation to strengthen the U.S. high-tech industry. His other illustrations similarly reveal his limited familiarity with the history or modern realities of Japanese capitalism.

Zinsmeister's views are significant, therefore, as specimens of how Americans are likely to think if they don't have any first-hand knowledge of Japan, which was the point our original letter made. (The more specific point concerned the systematically distorted coverage of Japan provided by the *Wall Street Journal*'s editorial page, where Zinsmeister's article appeared.) Even now Zinsmeister seems not to grasp the terms of the argument. He reemphasizes his discovery that many Japanese industries are failures when measured by Anglo-American standards. Prices are too high; return on investment is too low. The academics and journalists who signed the original letter have observed the same phenomena for years. Where they differ is in interpretation. To Zinsmeister these failures are proof of the larger irrationality of the Japanese system; to me they indicate the possibility that the Japanese system has different measures of efficiency and success.

The Gender Map

To the Editors:

Karen M. Paget's "The Gender Gap Mystique" (Fall 1993) raises what I see as the most fundamental and most overlooked issue in the role gender plays in politics. Our public opinion polls in Texas clearly show that on the vast majority of hard issues, controlling for age, there simply is no gender gap.

That's not to say a gender gap doesn't exist. Women hold different views from men on fear-based and heartstring issues like crime, poverty, and care of the aging. Men and women, too, are strikingly dissimilar in many of their views about gender roles and gender concepts. Age seems to magnify the differences.

I suspect gender concepts may play a much stronger role in elections than gender differences on issues, even though most research seems to have focused on the latter. I suspect the dynamics of the feeling-thinking-concept formation-vote process may be different for men and women.

Texas is a great research window. Ann Richards has been one of the most popular governors in the country and in Texas's history. But her upcoming race is a battle. She beat rape-joking, cowboyish Clayton Williams with last-minute party defection by Republican women, but how she'll fare against the polished namesake eldest son of a former president remains

to be seen. (An October head-to-head found her only 8 points ahead of George W. Bush.) The feeling-thinking-concept formation-vote behavior of well-educated, high socioeconomic status women may show us a lot.

Candace Windel
Austin, Texas

Candace Windel is managing director of the Texas Poll.

Don't Ignore the Political Context

To the Editors:

A pair of articles in your Fall 1993 issue—"The Left's Obsessive Opposition" by Richard Rothstein and "Lani Guinier's Constitution" by Randall Kennedy—dealt in one way or another with the political problems of the Clinton administration. Because in my view each missed some essential factors, I would like to add some observations of my own.

Rothstein shrewdly observes that liberal critics of Clinton cannot now retroactively create a mandate that was not there in November 1992. His point needs to be underscored. Most obviously, Clinton became the third man in the twentieth century to win the presidency with under 45 percent of the popular vote. But unlike Wilson in 1912 or Nixon in 1968 he could not automatically add the votes of the third party candidate (whether Teddy Roosevelt or George Wallace) to create his "mandate." In addition, there was (counting the Georgia by-election) no net partisan change in the Senate and the Democrats lost seats in the House.

The results from the South were particularly troubling. Not only did a ticket composed of two southerners carry only four of the eleven former Confederate states (Bush in fact receiving an absolute majority in Mississippi), but for the first time in American history the percentage of the votes cast for Republican congressional candidates was higher in the South than in the nation as a whole. Among interest groups active in the campaign, the major new player to emerge seems to have been Pat Robertson's Christian Coalition. In short, congressional Republicans, conservative Democratic politicians at all levels, and the forces of the religious right did not perceive any pressure to change their positions because of the election results.

With regard to Randall Kennedy's article, many of the groups supporting liberal Democrats have become so politically problematic as to limit their ability to maneuver and thus offset conservative influence in the party. This is clearly the case with African-Americans. Contrary to what Kennedy seems to think, the possibility that black pressure within the party has on balance repelled white voters is not simply "New Democratic" propaganda but an empirical conclusion drawn from an enormous amount of survey research. The result (as Thomas Edsall, who cannot be summarily dismissed, points out) is that the Republicans have now become the "anti-civil-rights" party; equally important, they are likely to remain so *whatever* overtures they may make to black voters. In *that* situation, significant black defections from the Democrats would be generally interpreted to mean not that Republicans would support civil rights but that civil rights was no longer a black priority—a result that I think neither Randall Kennedy nor Lani Guinier would want.

These factors—the ambiguity of the election returns, the intransigence of Republican opposition, and the limits to independent black political action—form the context in which we, as liberals, as well as the Clinton administration, must now operate. To ignore this context is to do a grave disservice not only to the most progressive president in a generation but to ourselves as well.

William B. Hixson, Jr.
East Lansing, Michigan

William B. Hixson, Jr. is professor emeritus of history at Michigan State University. ❖

THE AMERICAN PROSPECT

Delivering Health Reform

Paul Starr

The Social Security Act in its final form was far from a perfect piece of legislation. In important respects it was actually weaker than the Wagner Lewis bill of the year before. It failed to set up a national system and even failed to provide for effective national standards. It left to the states virtually every important decision and thus committed the nation to a crazy-quilt unemployment compensation system. . . .

For all the defects of the Act, it still meant a tremendous break with the inhibitions of the past. The federal government was at last charged with the obligation to provide its citizens a measure of protection from the hazards and vicissitudes of life.

Arthur M. Schlesinger, Jr., *The Coming of the New Deal*

Imperfect, but a landmark on the journey to a good society: so it will be with health care reform, if we are lucky. The window of political opportunity for universal health coverage has opened five times in the twentieth century, and each time legislation has failed to make it through before the opportunity was lost. The window that is now open may also shut without a victory unless President Clinton can marshal public support while assembling a majority in Congress.

The political realities are sobering. The Clinton Health Security plan is often compared to Social Security and Medicare. But when Social Security and Medicare passed Congress, Roosevelt and Johnson each had commanding majorities in both houses. In 1935, there were 69 Democrats and 25 Republicans in the Senate; in 1965, the Democratic margin was 67-33. Even so, severe compromises were necessary. Today, with 60 votes needed to close off debate, the Senate has only 57 Democrats, and the president cannot depend on all of them. What is remarkable is that even with these numbers, Clinton has compiled the highest rate of legislative success in the first year of office of any president since Eisenhower.

Democrats have stronger control in the House but are more polarized on health care reform than in the Senate. A conservative group backs a managed-competition plan that does not achieve universal coverage, while a liberal wing supports a single-payer plan. Although the Clinton plan has elements in common with both, the two have little in common with each other. But to pass a bill, most members of these groups must join together.

The fiscal constraints are as daunting as the political obstacles. Facing a long-term structural deficit and negligible prospects for major new taxes, the administration cannot offer all the sweeteners that ordinarily make compromise palatable. Medicare was a boon to doctors and hospitals, and in other countries the adoption of universal health insurance has typically included concessions increasing the incomes of providers. That alternative isn't available now. The imperative to restrain health care costs inevitably means restraining the growth of health care incomes.

These are some of the hard realities complicating health reform. The constraints will be far more serious, however, if they are misjudged. Victory will be elusive if groups fail to adjust their expectations, and public enthusiasm will dissipate if concessions go too far. The delicate task of leadership is to thread its way between those two perils. In the countdown to congressional decision, success will depend on whether the leadership fighting for reform in and outside the government can keep up public pressure for change while striking a workable deal among contending interests and party factions.

Strategic Foundations

The Clinton Health Security plan already embodies a number of strategic choices aimed at overcoming the barriers to change. The proposal retains basic features of the current system: private health plans, premium-based financing shared by employers and employees, and a separate Medicare program for the elderly. But it seeks to assure universal coverage and cost containment by creating a new framework for the purchase of insurance, requiring employer contributions, and capping premium increases as well as employer and individual obligations. Each of these departures is a potential flash point of conflict.

A year ago in these pages, I described the approach to coverage and cost control that evolved into the president's proposal.[1] This approach shares some key features with plans favored by liberals and other features with plans backed by conservatives. Like single-payer proposals, it guarantees coverage to all Americans as a right of citizenship, provides comprehensive health benefits, limits burdens according to ability to pay, and caps growth in expenditures for covered benefits. Like more conservative proposals that emphasize competition, the president's approach enables Americans to receive coverage through a private health plan of their own choosing, obliges plans to compete on price and quality for enrollment, and asks consumers to bear the marginal cost of health

Victory will be elusive if groups fail to adjust their expectations, and public enthusiasm will dissipate if concessions go too far.

1. "Healthy Compromise: Universal Coverage and Managed Competition Under a Cap," *TAP*, Winter 1993. Walter Zelman and I set out more of the details in a related article published in March but written before either of us went to work for the White House: "Bridge to Compromise: Competition under a Budget," *Health Affairs* (Supplement 1993). Twelve accompanying articles in the same issue of *Health Affairs* were originally presented two weeks after the 1992 election at a conference I organized at Princeton; many of the authors were later involved in developing the president's plan. Nonetheless, when they were written, these articles did not have any official benediction. The same is true of this article, written after I left Washington. It represents my own ideas, and mine alone.

plans that produce the guaranteed benefit package at a higher premium.

The key institutional innovation is the creation of health alliances—originally called health insurance purchasing cooperatives—to pool costs and to serve as the gateway for consumers to the health plans in their communities. The alliances enable consumers rather than employers to choose plans and reduce administrative overhead for individual and small-group insurance. In the president's proposal, they also serve as the mechanism for consolidating the stream of revenue for health care and capping growth in costs (the caps apply to the weighted-average premium in the alliances, not the premiums of individual plans).

Rather than call for new broad-based taxes, the Clinton plan finances new federal costs primarily out of redirected growth in existing health programs. The only new taxes are an increase in tobacco taxes, an assessment on large corporations that run their own health alliances, and a partial recapture of savings to companies benefiting from lower health insurance costs for early retirees. Reductions in projected outlays for existing programs make up 57 percent of the sources of funds for the new initiatives. This financing strategy applies both to coverage of the under-65 population and to what might be thought of as the "Medicare module" in the plan. These are the provisions to limit the growth of spending for Medicare's existing benefits and to use the savings to provide the elderly prescription drug coverage and to finance a new program of home-based long-term care for the elderly and disabled.

As part of its financing, the president's plan includes several transitional compromises. By a transitional compromise, I mean one that stretches out or delays new initiatives, as opposed to a structural compromise that alters basic features. The main transitional compromises are that the plan phases in universal coverage, state by state, between 1996 and 1998, and defers some elements of the benefit package, notably broader mental health and dental coverage, until 2001. The proposed new home- and community-based long-term care program for the elderly and disabled will be gradually introduced between 1996 and 2000.

While accommodating fiscal realities, the president's plan does not make the structural compromise of sacrificing universal coverage or a comprehensive benefit package. A more limited plan, providing modest insurance-market reforms and minimum protection for the poor, would still fail to provide security to the middle class, control of costs to workers, business, or taxpayers, or any benefit to the elderly, and would thereby forfeit critical support.

The president's plan also maintains an option for states to carry out universal coverage through a single-payer system. No legislation will be able to pass without support from the grassroots organizations and members of Congress who support a single-payer plan. Many advocates of the alliance approach also believe that a single-payer system may work better in rural states and that all states should have both alternatives.

Nonetheless, there will be strong pressure to move toward a more limited plan. The two main "centrist" alternatives to the president's plan are the conservative Democrats' bill, introduced by Rep. Jim Cooper of Tennessee, and the Senate Republican proposal presented by Sen. John Chafee of Rhode Island. The Cooper plan does not assure universal coverage, and the Chafee plan does so only on the basis of a mandate on individuals (rather than employers) to purchase a limited benefit package to be defined by a national board after legislation. Both plans rely on market forces and caps on tax benefits for health insurance to contain costs. While the Cooper and Chafee plans call for purchasing cooperatives, their cooperatives are smaller and more vulnerable to adverse selection (that is, a higher risk membership) than the broad-based alliances in the president's plan. The Cooper and Chafee plans also have no regulatory

backstop for capping cost increases if competition fails. And neither provides the elderly prescription drug coverage or extends long-term care.

The proposals differ in many other areas: the relation between the federal government and the states, malpractice liability, medical education, quality improvement, antitrust, integration of Medicaid, and changes in other government programs ranging from public health to the veterans' health care system. Without slighting the importance of these issues, I want to focus on three points of conflict that seem to me particularly crucial in determining whether reform can pass and whether it will work: the employer mandate; the structure of the health alliances; and the use of caps to contain costs—that is, both the premium caps in the Clinton plan and the tax caps in the Cooper and Chafee plans.

Employer Contributions

Ever since the first battle in the United States over "compulsory" health insurance on the eve of World War I, the central point at issue has been whether employers would be compelled to pay for health insurance. If there is one reason for optimism today, it is that many groups previously opposed to an employer mandate—the U.S. Chamber of Commerce, National Association of Manufacturers, American Medical Association, and Health Insurance Association of America—now accept one. Still, there is no certainty that a mandate can get 60 votes in the Senate and 218 in the House.

Some conservatives and business groups will oppose any requirement for employer contributions no matter what the terms are. For example, the National Federation of Independent Businesses, a lobby for small business, is using the issue to build up its own organization. The NFIB will almost certainly remain stridently opposed, even though the Clinton plan would enable many of its own members to buy coverage much more cheaply than today.

However, if an employer mandate is to pass Congress, the margin of victory may depend on the cost to business. Under the president's proposal, required employer contributions will pay for 80 percent of the average premium in an alliance for the guaranteed benefit package (with a prorated share for part-time workers). Employers paying for coverage through regional health alliances will pay no more than 7.9 percent of payroll for the 80 percent share, and employers with fewer than 75 workers will receive discounts capping their costs at levels as low as 3.5 percent of payroll, depending on both a firm's size and its average wages.

Several other provisions also affect employers' costs. The proposed caps on the growth of average alliance premiums will directly limit increases in employers' liabilities. Another provision will spread the cost of families among employers. While employers collectively will contribute 80 percent of the average premium, an individual employer will pay that amount *divided by the average number of workers per family in an alliance.* Since on average there are 1.4 workers per family, the average employer will actually pay only 57 percent of family premiums. In addition, early retirees between ages 55 and 65 will receive a community-rated premium through the alliances (that is, their costs will no longer reflect their age and health status), and federal subsidies will pick up the 80 percent share. Employers paying for early retiree benefits will see those costs decline even with the limited federal recapture of savings, which applies only for the three years beginning with the introduction of the special retiree benefit in 1998.

The political problem posed by the mandate is not the total costs to business, but rather the costs to specific types of firms. In no year will the mandate raise net costs to the business sector by more than 4 percent above current trends, and by the end of the decade, because of the cost containment provisions in the reform package, the business sector will be spending less than it would if we do nothing.

However, some firms stand to gain and

others to lose because the new system will tend to spread costs more evenly among employers. Currently insuring firms—particularly those that cover whole families and have older workers and many retirees—will tend to see reductions in their costs, while those that have provided little or no coverage will, of course, experience increases. For example, manufacturing companies, state governments, and small businesses that now provide good health benefits will generally see lower costs for their employees. But retail firms and other low-wage service businesses, especially those that rely heavily on part-time workers, will see higher costs. The firms exposed to the largest relative increases are employers with more than 5,000 workers, such as national retailers, that now offer no insurance and low average wages.

Employers' costs could be moderated or shifted through any of several changes:

- cutting the minimum employer share of the premium;
- pegging employer obligations to a low-cost plan or some other benchmark lower than the average premium;
- reducing the guaranteed benefit package;
- reducing the required contributions for part-time workers; or
- requiring the employer of a family's higher earner to pay the entire employer share, rather than spreading the cost of families among employers (which would tend to transfer costs back from the retail to manufacturing sector).

Of these, one modification probably does the least long-run damage: cutting the minimum employer share of the premium. Objectively, the division of obligations between employers and employees has little long-run distributive importance. To be sure, in the short run, employers facing a mandate may not be able to reduce wages to offset the cost. However, the evidence is overwhelming that workers ultimately bear the cost even if the employer nominally pays it. Marginally reducing the minimum employer share, therefore, does not actually cost labor anything it will not eventually pay.

The conflict here is between political perception and economic reality. Much of the public believes that employers bear the costs of health benefits. Moreover, many who now receive a higher employer contribution will be worried that they will lose some of what they now have. Here it will be essential to explain that just as a minimum wage does not drag down salaries for people who earn more, so, too, a minimum requirement for employer contributions need have no impact on workers whose employers now pay more either voluntarily or through collective bargaining.

There are limits to how far the employer share can be cut back without jeopardizing the goals of reform. The lower the share paid by the employer, the greater the number of households that need to be subsidized to make coverage affordable—and the more political resistance to a strong standard of coverage. Without any employer contribution, many families would face a staggering burden; subsidies would have to reach roughly half the population. Moreover, once such public subsidies were available, employers would cut back coverage, thereby generating still higher subsidy costs—a key problem with the Republican proposals for an individual mandate.

The employer mandate endorsed by the U.S. Chamber of Commerce calls for employers to pay 50 percent of the premium. It is not actually necessary to go as far as the Chamber's position to achieve nearly all of its effect. For example, if some in Congress proposed to reduce the minimum employer share under the Clinton plan from 80 percent to 70 percent, the effective share of family premiums for individual employers would, in fact, be 50 percent. Only for single workers would an individual employer be required to pay 70 percent. Moreover, about 10 percent of current premiums reflect the cost of unpaid medical bills of the uninsured that will be covered under reform. Thus, under universal cover-

age a mandate for employers collectively to pay 70 percent of the average premium would reduce the average employer's burden to approximately the level called for by the Chamber relative to present rates.

Of course, employers could contribute a higher share than the minimum level. And individuals and families whose employers contributed the minimum would pay only the difference between 70 percent of the average premium and the premium of the plan they select. On average, their share would be 30 percent.

A formula along these lines could reduce the cost of employer subsidies to the federal government. If the required employer contribution were reduced to 70 percent of the average but the cap on those contributions remained at 7.9 percent of payroll, fewer employers would hit the cap. Subsidies to low-income families would increase, yet there would be a net reduction in subsidy costs that could free up revenue to cap the contributions of low-wage firms with more than 5,000 employees, though perhaps not at the 7.9 percent level.

This route to reform is much to be preferred to a reduction in the guaranteed benefits to a catastrophic package (that is, with deductibles on the order of $2,000 or $3,000). Catastrophic insurance fails to provide the coverage of primary and preventive care that keeps patients out of emergency rooms and hospitals. It reinforces the skewed allocation of resources toward high-cost services that has made the U.S. health system the most costly in the world.

Moreover, if unemployment still threatens Americans with loss of their current coverage (and thereby access to the doctors in their health plan), reform will not have provided them genuine security. Also, a catastrophic option creates severe problems of risk selection: the people most attracted to it are likely to be young and healthy. That is why proponents of managed competition, as much as single-payer advocates, have opposed making catastrophic coverage the guaranteed benefit level.

Designing Stable Alliances

The design of the purchasing alliances, although less well understood than the employer mandate, is just as contentious and critical an issue. While the Clinton, Cooper, and Chafee plans all make use of alliances, the Clinton plan structures them in a way that is far more likely to spread burdens fairly and control costs. Under the Cooper and Chafee plans, the purchasing alliances would have higher costs than employee groups outside. And once configured as high-cost pools, they would likely become unstable and a source of steadily deteriorating coverage.

Under the president's plan, regional health alliances will contract with health plans for coverage of all employees of firms with fewer than 5,000 workers, public employees, part-time workers, the unemployed, and other individuals outside the labor force—in all, more than 80 percent of the population under age 65. The alliances will thereby create a single pool covering the vast majority of Americans at a community rate, that is, the same premium regardless of health or other personal characteristics. The groups that purchase coverage through this pool will face no financial disadvantage compared with groups outside and most likely will benefit from a wider array of choices.

The president's plan allows firms with over 5,000 employees to opt into the regional alliances on an initially risk-adjusted basis, a provision designed to offset the costs of big companies with older workers. Large companies that establish their own alliances must still provide their employees at least the guaranteed benefit package and a choice of three plans. However, they are not eligible for any federal subsidies and must pay an assessment equal to 1 percent of payroll.

The Cooper bill, in contrast, would limit eligibility for its regional purchasing cooperatives to residents of an area otherwise without insurance and to firms with fewer than 100 employees. The Chafee plan

calls for competing voluntary cooperatives, also limited to employers with fewer than 100 workers.

Both of these proposals threaten to raise premiums in the purchasing cooperatives as a result of adverse selection—the probability that the population in the cooperatives will include disproportionate numbers of people with high health costs. Under the Cooper proposal, individuals within small firms and all others not covered by large firms would choose whether or not to buy insurance. Under the Chafee plan, small firms would choose whether or not to buy from a purchasing cooperative. Because the proposals do not require participation in the alliances, individuals or groups with relatively higher risks will be the most likely to purchase coverage. And because the cooperatives are restricted to uninsured individuals and employees of small firms, they make up a more costly pool than the larger firms.

The danger is a cascade of exceptions, as one group after another seeks to opt out of the alliances.

Making the cooperatives voluntary poses the same problems that a voluntary Social Security system would have. Not only will those purchasing coverage tend to have higher expected medical costs, but the system will cost more to administer because it will face marketing expenses obviated by an employer mandate. In addition, the cooperatives in the Cooper and Chafee plans will have to spread their administrative costs over a population that is both smaller and more costly to serve.

To ask only small firms and their employees to share in a pool that includes the unemployed and the poor is to impose an extra cost upon them that larger employers do not have to bear. Neither the Cooper nor Chafee plans include the offsetting benefits to membership in the regional pools—that is, the caps on employer contributions and avoidance of the 1 percent payroll assessment. This is not only a matter of fairness. If premiums in the alliances cost more, businesses and unions will seek to get out and the cooperatives may unravel.

That may happen during the legislative process. The danger is a cascade of exceptions, as one group after another seeks the ability to contract directly for insurance outside the alliances. This, of course, is exactly what the insurers want, since it would give them the ability to continue cherry picking the healthy. If Congress yields to those demands, the alliances will have higher premiums, subsidy costs will rise, and the entire reform effort may become a fiasco.

The Cooper bill is closer than the Chafee plan to the president's proposal in two respects. Cooper calls for only one purchasing cooperative per region—not for competing cooperatives, which themselves would have incentives to cherry pick employee groups. Under the Cooper plan, furthermore, firms with fewer than 100 employees can receive tax benefits for health insurance only if they buy coverage through the regional purchasing cooperative. This provision, which I think of as the "Cooper mandate," amounts to a 34 percent tax on any other health coverage and helps to limit adverse selection.

If Congress requires employers to contribute to health insurance, the differences between the Clinton and Cooper proposals for alliances may narrow. Cooper's original 1992 bill called for a cutoff size of 1,000 employees for employer-participation in the alliances. Cooper should, therefore, be willing to come back at least to that level. The lower the cutoff point, the greater the risk of hitting a tipping point where the alliances turn into an unfavorable risk pool and groups of all kinds demand the right to buy insurance on their own.

Some in Congress may also seek a transitional accommodation with Cooper: the use of the Cooper mandate, say in 1996, combined with a phased-in requirement for

employers to pay for coverage. For example, the full employer mandate might apply in 1996 only to employers with over 100 employees, then in 1997 to firms between 50 and 100, and finally in 1998 to all firms. This sequence might help alliances get started (they would first be dealing with a more stable base of midsize employers largely accustomed to paying for health insurance), but it would complicate many other issues.

On one critical point, the Cooper plan is highly vulnerable. Unlike the president's proposal, it does not guarantee that every alliance will offer a traditional, fee-for-service plan that pays "any willing provider," and it includes no provision for alliances to negotiate fee-for-service rates.[2] These provisions of the Clinton plan are anathema to many advocates of managed competition who expect and hope that fee-for-service coverage will disappear entirely, but this is not a politically tenable position. The Cooper plan has gotten much support from conservatives and even from doctors who do not appreciate its implications for fee-for-service medicine.

What Kind of Cap?

The use of caps in containing costs may pose the toughest problem of all. On the one hand, the president's plan calls for a cap on health plan premiums that is opposed by Cooper, most Republicans, and many groups that accept the employer mandate and other elements of reform. On the other hand, the Cooper and Chafee plans call for a cap on tax benefits for health insurance set aside by the president, opposed by labor, and likely to be deeply unpopular. But this chasm, too, must be bridged.

The premium caps and tax caps have some of the same functions: restraining increases in system-wide costs and limiting new federal spending. The president's caps limit increases in average premiums in the alliances and thus control federal subsidies that depend on those premiums. The tax caps in the Cooper and Chafee plan limit the amount of tax-free money for insurance premiums and thus cut the cost of federal tax expenditures.

Under the Clinton plan, national legislation will set a growth rate for premiums for covered benefits for the country as a whole, and the National Health Board will adjust that rate for specific alliances depending on demographic changes and other factors. Alliances may meet their targets without any enforcement of caps as consumers switch out of high-cost plans, thereby dragging down the average. If, however, health plans' bids in a given year threaten to push an alliance's average over the allowable growth, the federal government will deny full rate increases to the plans seeking the biggest jumps and require the plans to pass on those rate reductions to their providers.

The administration conceives of the premium caps as a "backstop" to competition, needed because not every area will have vigorously competing plans and the health care industry has a history of successfully inhibiting competitive forces. The caps will also dampen expectations in an industry long accustomed to rapid inflation. Although the president's plan expects savings from the alliances and competition, the caps will put firm boundaries on the financial obligations of employers, individuals, and the federal government itself. It is this kind of firm limit that the Cooper and Chafee plans do not have.

Some early criticism of the president's plan released in September focused on whether the caps were realistic because they call for cutting the growth rate in spending for covered benefits from around 9 percent annually to about half that level

2. Many news articles and commentaries (for example, a November 18, 1993 editorial by Arnold Relman in the *New England Journal of Medicine*) repeat erroneously that the Clinton plan includes only managed care plans or that the fee-for-service option will necessarily have the highest premium. In fact, because of the cost-sharing provisions, the premium for fee-for-service plans may well be less than premiums for many HMOs or only a little higher. And because alliances negotiate fee-for-service rates, they have the power under the president's plan to keep fee-for-service premiums down.

between 1996 and 2000. However, the caps during this period are not premised on so quick and deep a reduction in the underlying rate of growth. Besides moderating the growth rate, reform also generates one-time savings from consolidation of the small-group insurance market, consumer switching out of high-cost plans, a uniform claims form, and other changes. This combination of ongoing and one-time savings will permit reducing the growth rate in health costs to levels approaching general inflation plus population by late in the 1990s. The president's plan also achieves a corresponding slowdown in the growth of Medicare costs through specific reductions in future payment increases.

The caps put firm boundaries on the financial obligations of employers, individuals, and the federal government itself.

If the debate focuses on the appropriate growth rate for both private and Medicare spending, the president will have won half the battle. The big risk to reform is the possibility that Congress will reject any caps on private premiums. Without the caps, initial premiums and later increases may well be higher than projected, raising the specter of higher subsidy costs and thereby undermining the commitment to a strong benefit package.

Perhaps the most important but least understood aspect of this issue concerns the baseline premiums for the first year of reform. Today provider rates and insurance premiums reflect the cost of unpaid bills left by the uninsured. After universal coverage, unless rates come down, providers will receive a windfall. In theory, competition should force providers to give up that bonanza, but to count on perfectly efficient markets would be foolhardy. A special tax might recapture windfalls, but it seems far better never to give the industry a windfall in the first place. Thus, the method for calculating baseline premiums pulls out the current cost of uncompensated care. With no premium caps, it is likely that health care reform would begin with a costly expansionary spurt.

Furthermore, if there are no premium caps, the limits on Medicare spending will likely result in a shift of costs from Medicare to the private sector. Limits on Medicare's spending are on the way. The administration's proposed $125 billion in Medicare savings is about the same level as nearly half the Senate voted for in the Dole-Domenici entitlement cap; the Wellstone single-payer bill actually calls for higher cuts. But if there are no corresponding private limits, Medicare beneficiaries may encounter barriers to access, as Medicare payment levels fall behind. Even conservatives who support entitlement caps must face that if they want to cap Medicare but not private premiums, they will likely only shift costs to the very same private sector they are presumably seeking to protect from higher taxes.

One way to overcome opposition to the premium caps may be to set rules for their application. As even the most ardent advocates of competition recognize, some regions of the country do not have competing plans now, and some rural areas have little prospect of effective competition. Moreover, even in many areas with potential to support competing plans, it will take time for competition to become effective.

Some in Congress may propose, therefore, that the premium caps not apply unless the National Health Board makes a finding that competition in a region is ineffective in limiting costs. However, to prevent windfalls at the outset of reform, the National Health Board would need special authority to ensure that first-year rates reflect the reduction of uncompensated care to the previously uninsured.

In return for this concession, some supporters of reform in Congress might accept a limited version of the tax cap. For example, employer contributions could continue

to be tax-deductible to the employer and excludable from taxable income of the employee up to 100 percent of the average premium—a provision that would at least constrain the use of tax-free dollars to pay for high-cost plans.

A tax cap, even at 100 percent of the average, would raise objections from unions. However, the early retiree benefits, which many observers assume will disappear from the final plan, could be the basis of a deal. Most of the cost of early retiree benefits comes from general features of the plan: community rating and discounts to low-income families, not the special federal subsidy for the 80 percent share. The recapture tax on companies benefiting from the early retiree provisions fully offsets the marginal cost of the retiree discount through the year 2000. Thus opponents of the retiree provisions may be persuaded to support them in exchange for labor's acceptance of a limited tax cap.

Premium caps are an indispensable element of the Clinton plan. In the event that Congress prefers to establish targets rather than enforceable limits at first, the targets should become caps in the third year if competition fails to limit premiums. This would give a fair test to competition but still provide a "scoreable" method of cost containment by 1998, when the program is fully implemented and more federal money is at stake.

Getting Past the Danger Points

The most critical dangers for the president's plan are defeat of the employer mandate, a merely voluntary basis for the alliances, and the loss of any way to limit baseline premiums in the first full year of implementation. Because the plan has so many interdependent parts, a defeat on any one of these could set in motion a reaction compromising core objectives of health security. These are the threats that the administration and its supporters must succeed in overcoming.

Some other difficult issues can be skirted by turning them over to the states. State flexibility is a kind of insurance policy against excessive compromises at the federal level. If the federal government botches reform, a flexible design will at least allow some states to get it right. The opportunity to win at the state level is the basis on which many of the single-payer groups now support the president's plan. State flexibility, however, can extend in many directions, including backwards, which is always the risk in compromise.

It is one thing, of course, to imagine there are bridges to compromise; it is another thing for opponents to cross them. The reality is that some opponents of the employer mandate, alliances, premium caps, and health care reform itself have no interest in compromise. A lot of groups do well under the status quo: that is why it is so expensive. Others, on the left, believe it is better to wait for the coming of single-payer enlightenment than to suffer any lesser outcome.

But we have had almost a century of waiting for universal health insurance. To break the pattern, we must not only accept the imperfect possibilities of our time—we will have to fight for them.

Imagebusters

The Hollow Crusade Against TV Violence

Todd Gitlin

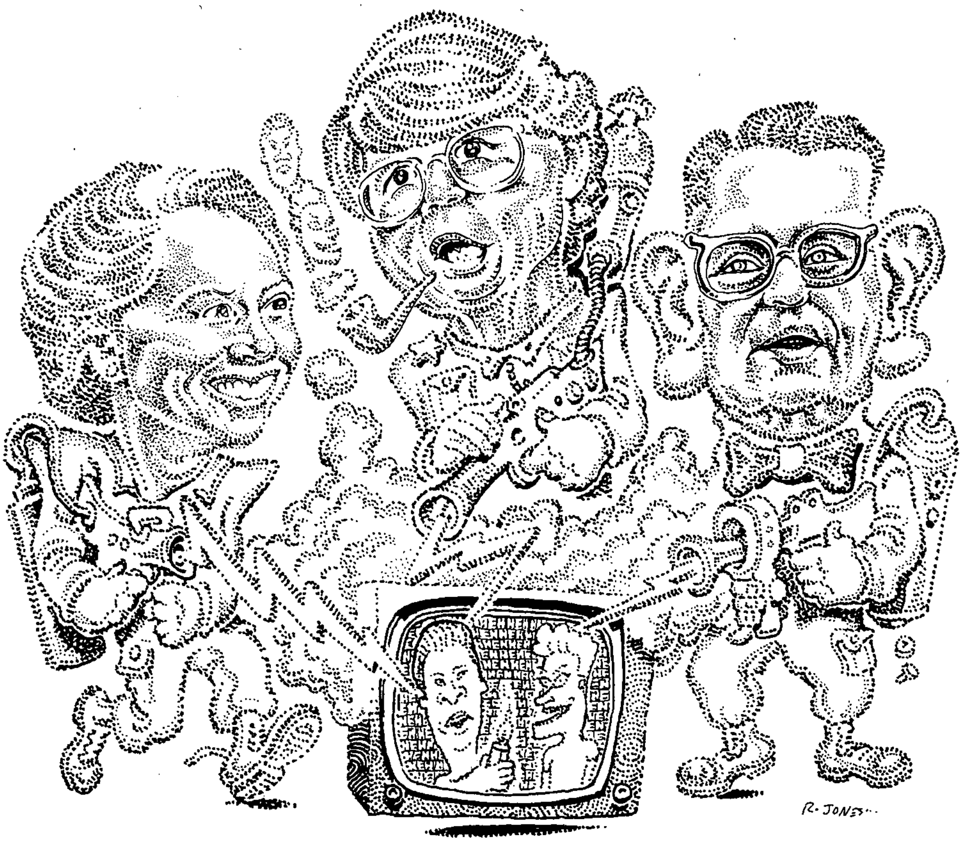
Guns don't kill people, picture tubes do. Or at least that seems to be the message behind the clangor of current alarms about television violence. Don't misunderstand: I have denounced movie violence for more than two decades, all the way back to *The Wild Bunch* and *The Godfather.* I consider Hollywood's slashes, splatters, chainsaws, and car crashes a disgrace, a degradation of culture, and a wound to the souls of producers and consumers alike.

But I also think liberals are making a serious mistake by pursuing their vigorous campaign against violence in the media. However morally and aesthetically reprehensible today's screen violence, the crusades of Senator Paul Simon and Attorney General Janet Reno against television violence, as well as Catharine MacKinnon's war against pornography, are cheap shots. There are indeed reasons to attribute violence to the media, but the links are weaker than recent headlines would have one believe. The attempt to demonize the media distracts attention from the real causes of—and the serious remedies for—the epidemic of violence.

The sheer volume of alarm can't be explained by the actual violence generated by the media's awful images. Rather, Simon, Reno, and MacKinnon—not to mention Dan Quayle and the Reverend Donald Wildmon—have signed up for a traditional American pastime. The campaign against the devil's images threads through the history of middle-class reform movements. For a nation that styles itself practical, at least in technical pursuits, we have always been a playground of moral prohibitions and symbolic crusades.

Even before the technology of movies made savagery so vivid, middle-class uplifters in America and England have been variously enthralled and disgusted by media violence and blamed it for inciting working-class youth. In his study of the 1888 Jack the Ripper phenomenon, cultural historian Christopher Frayling notes that London's penny comic weekly *Illustrated Police News* regaled readers with detailed accounts and artists' renditions of the Ripper crime scenes, compiling 184 cover pictures during the four years after the last murder. The high-minded were quick to link the Ripper crimes to the excesses of popular culture. *Punch* magazine asked rhetorically:

> Is it not within the bounds of probability that to the highly-coloured pictorial advertisements to be seen on almost all the hoardings [billboards] in London, vividly representing sensational scenes of murder exhibited as "the



great attractions" of certain dramas, the public may be to a certain extent indebted for the horrible crimes in Whitechapel? We say it most seriously—imagine the effect of gigantic pictures of violence and assassination by knife and pistol on the morbid imagination of an unbalanced mind.

In his excellent new history of American entertainment, *Going Out: The Rise and Fall of Public Amusements*, David Nasaw tells us that comparable fears about the impact of moving pictures on children's impressionable minds cropped up in the movies' first decade. Of the 250 films it screened in 1910, the Ohio Humane Society found 40 percent to be "unfit for children's eyes," identifying working-class and immigrant children as particularly vulnerable to the message that crime paid. "In 1907," Nasaw writes, "Chicago passed a censorship ordinance requiring police permits for films shown in nickel and dime theaters." When Jane Addams' Hull House opened a theater to show wholesome alternatives—*Cinderella* and travelogues—very few children showed up, and one of them, a 12-year-old, explained to the reformers: "Things has got ter have some hustle. I don't say it's right, but people likes to see fights, 'n' fellows getting hurt, 'n' love makin', 'n' robbers, and all that stuff."

In the 1930s, the Payne Foundation funded studies attributing juvenile crime to movie violence, complete with testimonials of youthful offenders that they had gotten larcenous ideas from the silver screen. Legions of censors from the Hays Office monitored Hollywood output to make sure that, at the least, crime didn't pay. In the 1950s, Dr. Fredric Wertham made a name for himself by attributing all manner of delinquencies to the mayhem depicted in

comic books. Congressmen unable to find sufficient domestic threat in Communism were able to find it in comic books.

If today's censorious forces smell smoke, it is not in the absence of fire. In recent years, market forces have driven screen violence to an amazing pitch. As the movies lost much of their audience—especially adults—to television, the studios learned that the way to make their killing, so to speak, was to offer on big screens what the networks would not permit on the small. This meant, among other things, grisly violence—aimed to attract the teenagers who were the demographic category most eager to flee the family room. At the same time, the technologies of special effects steadily advanced to permit more graphic representations. We have witnessed the burgeoning of a genre unknown two decades ago: the "action movie," a euphemism for the debased choreography that budding auteurs throughout the world aspire to imitate. Aiming to recoup losses and better compete with cable, television programmers struck back: the networks lowered their censorship standards and pruned their "standards and practices" staffs; the deregulatory Federal Communications Commission clammed up; and local news fell all over itself cramming snippets of gore between commercials.

The financiers, executives, directors, writers, make-up artists, distributors, and others responsible should be covered with shame. But leave aside, for the moment, the aesthetic and moral cost and consider the arguments about the practical consequences of violent images. There is as much evidence as social science is capable of compiling that violence on the screen inspires and expedites *some* aggression in *some* children. After watching violent programs, many children become hostile, push each other around, stop cooperating, become more fearful, and become desensitized.

All these conclusions are contained in a recently published report, *Violence and Youth*, by the American Psychological Association's Commission on Violence and Youth—a report that Attorney General Reno has recommended. "Depictions of violence in the mass media . . . may reinforce the tendency toward aggression in a young child who is already exhibiting aggressive behavior," says this report. "There is absolutely no doubt that higher levels of viewing violence on television are correlated with increased acceptance of aggressive attitudes and increased aggressive behavior." *Absolutely no doubt:* strong words coming from a professional association. The report continues: "Aggressive children who have trouble in school and in relating to peers tend to watch more television; the violence they see there, in turn, reinforces their tendency toward aggression, compounding their academic and social failure. These effects are both short-term and long-lasting." If this were not strong enough, the report goes on to say: "In explicit depictions of sexual violence, it is the message about violence, more than the sexual nature of the materials, that appears to affect the attitudes of adolescents about rape and violence toward women." The report also notes that "children from low-income families are the heaviest viewers of television." That is, the children who have the least stable families, the fewest life prospects, the most violent environments, and the greatest potential for race and class resentment are the ones most exposed not only to images of violence but to the glaring contrast between the things available in their own lives and the things available in the programs and commercials of television.

And once in a while—meaning far too often—some grotesque image inspires emulation. Both big and small screens have taught impressionable people—or at least reinforced their propensity to practice—thrilling new ways to lacerate flesh. In 1982, after the cable television broadcast of *The Deer Hunter*, several people killed themselves playing Russian roulette, which was featured in the movie. American youths recently were killed and maimed when they lay down on the center strip of a high-

way, imitating a scene from Disney's movie *The Program*. A few months ago, a 17-year-old French youth blew himself up after learning from an episode of *MacGyver* how to build a bomb in a bicycle handle, at least according to his mother, who is suing the head of the channel for manslaughter.

But correlation is not necessarily cause. The notorious five-year-old *Beavis and Butt-head* fan who started a fire and killed his two-year-old sister may have been starting fires long before these loathsome characters were smudges in their creator's eye. In the end, it is not possible to know with precision whether these victims would have found some other way to commit mayhem in the absence of the images.

The question the liberal crusaders fail to address is not whether these images are wholesome but just how much real-world violence can be blamed on the media. Assume, for the sake of argument, that *every* copycat crime reported in the media can be plausibly traced to television and movies. Let us make an exceedingly high estimate that the resulting carnage results in 100 deaths per year that would not otherwise have taken place. These would amount to 0.28 percent of the total of 36,000 murders, accidents, and suicides committed by gunshot in the United States in 1992.

That media violence contributes to a climate in which violence is legitimate—and there can be no doubt of this—does not make it an urgent social problem. Violence on the screens, however loathsome, does not make a significant contribution to violence on the streets. Images don't spill blood. Rage, equipped with guns, does. Desperation does. Revenge does. As liberals say, the drug trade does; poverty does; unemployment does. It seems likely that a given percent increase in decently paying jobs will save thousands of times more lives than the same percent decrease in media bang-bang.

Now I also give conservative arguments about the sources of violence their due. A culture that despises and disrespects authority is disposed to aggression, so people look to violence to resolve conflict. The absence of legitimate parental authority also feeds a culture of aggression. But aggression per se, however unpleasant, is not the decisive murderous element. A child who shoves another child after watching a fist fight on TV is not committing a drive-by shooting. Violence plays on big screens around the world without generating epidemics of carnage. The necessary condition permitting a culture of aggression to flare into a culture of violence is access to lethal weapons.

> *The question liberal crusaders fail to address is just how much real-world violence can be blamed on the media.*

Thus when Senator Simon and Attorney General Reno denounce TV violence, I am reminded of the story of the fool who is found on his hands and knees searching the sidewalk under a streetlight.

"What are you looking for?" asks a passerby.

"My watch."

"Where did you lose it?"

"Over there," says the fool, pointing to the other side of the street.

"Then why are you looking over here?" asks the passerby.

"Because it's dark over there."

It's dark over there in the world of real violence, hopelessness, drugs, and guns. There is little political will for a war on poverty, guns, or family breakdown. Here, under the light, we are offered instead a crusade against media violence. This is largely a feel-good exercise, a moral panic substituting for practicality. But in the language of media consultants, the panic "resonates." The obsession offers frissons of horror while denying that the moralist is also attracted. It appeals to an American propensity that sociologist Philip Slater

called the Toilet Assumption: once the appearance of a social problem is swept out of sight, so is the problem. And the crusade costs nothing.

There is, for some liberals, an additional attraction. By campaigning against media violence, they hope to seize "family values" from conservatives. Indeed, there is an ideological tilt in today's cultural-cleansing campaigns. For the most part, Republicans are offended by sexual images, Democrats by violence. Republican candidates like former President George Bush who would have thought twice about appearing on platforms with Madonna or Warren Beatty apparently have no compunction against sharing the stage with that bulging jewel in the crown of family values, Arnold Schwarzenegger. By raging against TV violence, liberals aspire to prove themselves red-blooded defenders of flesh-and-blood families, to stand apart from Hollywood, and to take the crusade against Sin City away from the likes of Dan Quayle. But the mantle of anti-violence they wrap themselves in is threadbare, and they are showing off new clothes that will not stop bullets.

The symbolic crusade against media violence is a confession of despair. Those who embrace it are saying, in effect, that they either do not know how to, or do not dare, do anything serious about American violence. They are tilting at images. If Janet Reno cites the APA report, she also should take note of the following statements within it: "Many social science disciplines, in addition to psychology, have firmly established that poverty and its contextual life circumstances are major determinants of violence. . . . It is very likely that socio-economic inequality—not race—facilitates higher rates of violence among ethnic minority groups. . . . There is considerable evidence that the alarming rise in youth homicides is related to the availability of firearms." The phrase "major determinant" does not appear whenever the report turns to the subject of media violence.

The question for reformers, then, is one of proportion and focus. If there were nothing else to do about deadly violence in America, then the passionate crusade against TV violence might be more justifiable, even though First Amendment absolutists would still have strong counter-arguments. But the imagebusting campaign permits politicians to fulminate photogenically without having to take on the National Rifle Association, or for that matter, the drug epidemic, the crisis of the family, or the shortage of serious jobs. To the astonishment of the rest of the known world, we inhabit a political culture in which advocates of gun control must congratulate themselves for imposing restrictions on the purchase of certain semi-automatic weapons, or a five-day waiting period before the purchase of a handgun.

In this never-never land, imagebusting is also the refuge of the hapless liberal. When I called Simon's office to find out his views on gun control, his press official told me that the senator had no position papers on the subject. (Subsequently, he voted for the Brady Bill—itself more a symbolic gesture against firearm violence than a measure likely to reduce violent crime, though it does set some limits to NRA influence.) Senator Ernest Hollings, who has co-sponsored the Children's Protection from Violence Programming Act and on November 23 published a stirring *New York Times* op-ed piece defending it, voted against the Brady Bill.

To their credit, pandering is not the stance associated with President and Mrs. Clinton, who have been outspoken about guns as a menace to public health. But it remains to be seen what the president and his attorney general will do about the principal immediate cause of the mounting body count—guns.

Imagebusters may claim that the causes of violence in America are so intractable that an outraged, frightened public has no better expedient than to cleanse the media. This counsel of desperation not only promises very little practical good but also presumes that the First Amendment can

and should be swept away cavalierly. This is always a dangerous course. Censorship is a blunderbuss, not a scalpel. Just which violence is supposed to be cleansed anyway? The number of drops of blood spilled is scarcely the test of an image's vileness or perniciousness. Context is, by definition, unmeasurable. Moreover, Hollywood's history of self-regulation is hardly impressive. The self-imposed movie ratings system that replaced the old Hays office production code in 1966 has steadily ratcheted up the mayhem it permits in the PG-13 and R categories. Even modest advisory notices backfire, often attracting precisely those they are meant to warn off. The only television program that warns viewers to watch with care before each episode, *N.Y.P.D. Blue,* has actually depicted the pain and fear that devastate friends and coworkers after the shooter does his shooting.

Let media violence be criticized for the right reasons and in the right spirit: to be loathsome, popular culture doesn't have to be murderous.

Self-restraint is certainly desirable. Public shaming of those who produce grisly images is defensible (though it may prove paradoxically self-defeating). But even in the short run there is far better public policy to be made. Senator Daniel Patrick Moynihan, for example, has proposed an efficient and ingenious means: prohibitive taxes on bullets, with the most damaging bullets taxed the most. His point is that the guns already loosed into a desperate world (200 million, by some estimates) are out there and hard to recall. But bullets may well be the weak link in the violence chain. If we cut off the manufacture of bullets, except those used for hunting, or tax them prohibitively, then the bullets already out in the world will be harder to replace.

With the NRA losing steam, this is the time to generate a serious debate about guns and bullets. The NRA would make a bully enemy. A country choked with the fear of crime might well rally to Moynihan's proposal against the gun lobby if the stakes were explained to them. Ballots Against Bullets would be a dandy organization.

Instead, we are awash in iconophobia and moral panic. Behind many a present-day campaign to cleanse the screen stands a common tone of censoriousness. Behind this censoriousness stands not only a forceful and perhaps forgivable moral impulse but the same inflated belief in the power of images over behavior. Senator Simon and Reverend Wildmon meet Dan Quayle and law professor Catharine MacKinnon on the ground of a common terror. Right, left, and otherwise, advocates of differing stripes agree on a uniform structure of argument: that acts of communication are (often or always) binding; that once transferred to innocent hearts and minds, they flow into action (or, as MacKinnon argues, constitute action in themselves); and that a certain type of message is so widespread as to amalgamate into a one-dimensional culture.

In the view of the recent vice president and his conspicuous co-believers on the Republican platform at Houston in 1992, the TV character Murphy Brown was a bad—*effectively* bad—role model, said to confer legitimacy on unmarried mothers, presumably either by discouraging pregnant women from marrying or encouraging women to dispense with birth control in the first place. We were given to believe not simply that Murphy Brown was guilty of immoral acts, but that she was an effective cause of them—because she was a mouthpiece for a "cultural elite."

Without question, a certain elite makes key television decisions. It is an elite in the sociological, not the artistic sense; it supports producers whose popular styles and

prior success persuade network executives to invest in them. The investors respond to market conditions; but they do have a certain latitude in *how* to respond. (Murphy didn't have to get pregnant, although pregnancy was one way to build a story line and maintain suspense; and her decision to have the baby alone was credible enough to the show's core audience, which would not have been true, say, in 1962.)

The industry has considerable discretion about what to depict and how to depict it. But from this business truth it does not follow that the captains of entertainment have strong ideological motives. In general, they are shallow capitalists who speak the language of demographics. Neither does it follow that they are the operative cause of the cultural shifts, which they further but do not invent. The ability to further trends is no mean power, and here lies the truth of Quayle's overstated claim. The producers of television are partisans and inhabitants of the Hollywood version of slick and easy image making. Executives and producers derive their topics and outlooks from their milieux and then, selectively, amplify them. But the Quayle flail amounts to a confession of conservative helplessness in the face of a business society. Not willing to recognize that their beloved consumer economy is predicated on the arousal and satisfaction of desire, Quayle chastises the sellers.

To Catharine MacKinnon, "hate speech," in particular pornography, is an—or perhaps the—important instrument of social inequality. Denigration is more than a sign of oppression; it *is* oppression. In her new book, *Only Words,* she writes "There is a relation . . . between the use of the epithet 'nigger' and the fact that a disproportionate number of children who go to bed hungry every night in this country are African-American; or the use of the word 'cunt' and the fact that most prostitutes are women." We are to infer that the relation is causal, and significantly so.

MacKinnon does not trouble herself with evidence of the effective damage done by pornography; nor does she distinguish between pornography that is violent and pornography that is not; or between pornography whose actresses consent and pornography whose actresses do not. She tosses off references to court decisions instead of approximating reasoned argument about the causes of rape or, in general, the enshrinement of gender inequality. She does not address a quarter-century of voluminous arguments to the effect that pornography is not associated with rape. When she alludes to a few instances where rapists used pornography before committing rape, one is reminded of the anti-pornography crusaders who brandish serial killer Ted Bundy's death row proclamation that pornography made him do it; the murderer has suddenly been elevated to the expert witness on causality, with no ironic notice paid to the fact that, in his last days on earth, by pinning the blame on dirty pictures, he was taking himself off the hook.

Moreover, MacKinnon does not trouble herself to note that Japanese men gobble up pornography that is far more sadomasochistic than the American brand and there is almost no (reported, at least) rape in Japan. The reader is left in the dark as to whether she would want to argue the weaker case that the prevalence of S&M is an effective cause of male dominance and female subservience in Japan. (The argument would have to be made historically and would have to address the experience of countries like Denmark, Sweden, and Holland, which are lax toward pornography but rank low on anyone's male supremacy scale; but MacKinnon's book has no time for such considerations.) Nor does MacKinnon show the slightest interest in the fact that the nations with the most stringent laws against pornography, like Saudi Arabia, are scarcely paradises of women's freedom. Finally, MacKinnon does not know what to do with the fact that the pornography boom of the last 25 years has accompanied, rather than prevented, the greatest leap forward in social equality for women in American history. She prefers

the rapture of victimization.

Of course images matter. They don't only amuse; they cultivate coarseness and stupidity and bad ideas. Virtually everyone in America gives over thousands of hours annually to the delectation of mass-manufactured icons, helping convert vast reaches of social life into entertainment, qualifying and disqualifying politicians, making Larry King a port of political entry, Rush Limbaugh a public voice, and the network news a judge of who among the world's insulted and injured deserve help. Over years of unrelenting exposure, a cavalcade of stereotypes manufactured for profit helps reinforce bad as well as good ideas of how certain people are supposed to look, talk, and think. They reinforce popular ideas about women, blacks, gays, Iraqis, Somalis. They degrade our public space and popularize idiocies of a thousand kinds. They set agendas. As great quantities of research have demonstrated, they may not tell people what to think, but most of the time they do succeed in telling most people what to think about. And these days, one thing they are telling people to think about is media violence.

In our time, the preoccupation with images, a necessary component of politics, has swollen into a surrogate for serious politics. This is particularly so on the left, helplessly self-fragmented these days into clans obsessed with their singular rectitude and victimization. But whatever the Left is, one thing is certain: it cannot dispense with a democratic faith. To assume that the main obstacles to equality and justice and domestic tranquillity are irresistible media is to paint oneself into a corner. The people to whom one wants to appeal are seen as nothing but marionettes. Rancor and futility sprout in that corner, but nothing else.

There is no space here to address properly the plague of real-world violence. But let that discussion proceed with proper respect for the gravity of the situation. As for *media* violence, let it be criticized for the right reasons and in the right spirit. To be loathsome, popular culture doesn't have to be murderous. To disapprove of media violence, we don't need a threat of government action to rectify morals by fiat. The proper disapproval would have recourse to categories of judgment that make Americans nervous: aesthetic and moral standards and the intersection of the two. The democracy of taste has not been hospitable to judgments of this order. We aren't content to condemn trash on the grounds that it is stupid, wasteful, morally bankrupt; that it coarsens taste; that it shrivels the capacity to feel and know the whole of human experience.

Let a thousand criticisms bloom. Let reformers flood the networks and cable companies and, yes, advertisers, with protests against the gross overabundance of the stupid, the tawdry, and the ugly. Let them demand of local TV stations that the news cameras find something else to photograph besides corpses. To the Hollywood defense that Shakespeare also piled the stage with bodies, let reformers reply that *Timon of Athens* was not piped into the living room several times nightly, that revenge plays were not filling the seats of the Globe Theatre during the rest of the day—not to mention every other theater as well—and that close-ups of Elizabethan sword thrusts and resultant gore were not available in living color. If it be objected that Goethe's *Sorrows of Young Werther* may have prompted more than one suicide by a spurned lover, as did Pablo Neruda's *Twenty Love Poems and a Desperate Song*, or that more than one nineteenth century Russian youth (not to mention Ted Bundy, or so he claimed) learned murderous technique from *Crime and Punishment*, let reformers ask whether the questioner seriously asks us to rank the makers of *The Texas Chainsaw Massacre* with Goethe, Neruda, or Dostoevski, and if the answer is yes, let that serve as the cinching of the case as to what television has done to popular culture.

Not least, let the reformers not only turn off the set, but criticize the form of life that has led so many to turn, and keep, it on.❖

Back by Popular Demand

Will Hutton

Is Keynes staging a comeback? The recent experiment in free market economics whose falsities Keynes exposed has not proved notably successful. As our economies have become more marketized, growth has slowed and unemployment has risen. The search is on for a theory and policy that might produce better results. But if Keynes is being rediscovered, please God let it be the real Keynes—not the bastardized version that betrayed his revolution and allowed the barbarians back.

Many self-described Keynesians, as well as his critics, understand only the distorted version of Keynes: the doctrine that governments can spend and borrow their way to full employment. Critics typically concede that this approach worked passably well for a short time in the 1950s, but like a drug, they say, its efficacy diminished until finally it collapsed in inflation and excessive union power. Defenders—"neo-Keynesians"—insist the old verities stand, and some recommend government pump priming almost indiscriminately.

Yet this debate is sterile and misleading and offers only a caricature of the man and his ideas. Keynes was more than the advocate of actively managing the overall level of demand in the economy by government borrowing, although that is part of the story. He also offered a revolution in the way the capitalist economy should be conceptualized, and that should be the inspiration for revisiting his ideas.

Let's begin at the beginning: Keynes's assault on the intellectual tradition in economics that free markets, if left to their own devices, must necessarily deliver the best results. Keynes saw as a fiction the settled world imagined by the so-called classical economists in which supply and demand can always be reckoned to balance or tending to balance. In the Keynesian universe, the market is unstable and inefficient; it is in a permanent process of experimentation in which malfunction and waste is systemic. It can alternate between boom and bust; it can get trapped in perversely low output. The capitalist system, left to its own devices, does not work.

Neoclassical economics has cannibalized Keynes's vision, attempting to reconcile the unreconcilable in order to save the classical paradigm.

As the British economic historian, Robert Skidelsky, shows brilliantly in the just-published second volume of his three-part biography, *The Economist as Saviour*, Keynes resisted attempts to overly mathematize his insights—the "grey, fuzzy, woolly monster" inside his head. A vision of how the economy functioned was the heart of his message, and the real economy that Keynes understood so well was anything but mechanically precise. (See "Citizen Keynes," page 115.)

Money Matters

The key to his difference with the classical school is an understanding of how the existence of money transforms the way we should conceive buying and selling as a system for organizing the economy. Free market economics imagines exchange in a Robinson Crusoe world of hunter-gatherers who must necessarily barter what they have today because otherwise it would perish. Thus on the day when all the perishable produce is brought to market, either it is exchanged for other goods or, because the terms of exchange are not attractive enough, left in the possession of the original holder. The process cannot fail to produce a stable outcome. Obviously, at the end of trading, everyone has exactly the fish, fruit, or whatever that they want because otherwise they would have traded it. Everybody is perfectly happy, and the system is perfectly efficient. But introduce money and everything changes.

Suddenly marketplace agents—entrepreneurs, consumers, and savers—have the capacity to make bets about the future through saving or borrowing, which the free market's hunter-gatherers do not; and the future is uncertain. Instead of trading perishable goods, market agents hold money. They can withhold their buying power because they think they might get a better bargain tomorrow; or they can borrow and spend today because they think the opposite. The market starts to be driven by expectations of the future, and producers have to decide whether the changing pattern of demand for their product is real or just the reflection of a series of bets that will unwind themselves.

Since Keynes's death, neoclassical economics has cannibalized Keynes's vision, attempting to reconcile the unreconcilable in order to save the classical paradigm. Although the "neoclassical synthesis" (classical economics plus emasculated Keynes) concedes the need for management of aggregate demand at the macroeconomic level, the rest of the model is resolutely pre-Keynesian. Modern neoclassical economics

is no more than a vast intellectual game to prove the rules that apply to hunter-gatherers also apply in a complex industrial economy. Robinson Crusoe and General Motors play the same game.

Central to this exercise is an assumption of economic rationality: market agents, whoever they are, can be trusted to do no more than always want to maximize their advantage; prices contain all the information they could ever want to know; and even though the future is uncertain they make bets that, on average, reflect a mathematical calculus of the chances of success—even though they do not know this is what they are doing. The famous analogy is with the flight of a ball. The catcher does not know the physics of aerodynamics but can still successfully catch a ball.

But Keynes all his life distrusted the notion of mathematical probability applied to economics. He insisted that the future is not reducible to a series of outcomes to which economic agents can attach calculable probabilities. The future is not like a ball in flight because the catcher is blind; he or she can only make guesses about where the ball might land because the flight cannot be seen. It is in the future.

For Keynes, the future is simply incalculable, and that is what gives the money-exchange economy its unstable character. That is why inflation, unemployment, and booms and busts exist. Once the snowball of expectations, hopes, and fears is loosed and is fueled by excessive saving or borrowing, the unregulated market system cannot deliver any pattern of prices that can check the subsequent swings in economic activity until they have run their course.

Indeed this may take not just years but decades, for economies can get locked in a pattern of behavior that prices alone can do nothing about. Classical economists—like their new-right descendants today—argue that unemployment, for example, is essentially voluntary. If unemployed workers lower the price of their labor sufficiently, they must eventually price themselves into work; not to do so means unemployed workers are choosing to stay jobless. Essentially, the firm and the worker behave like hunter-gatherers over work-time: the worker wants to sell it and the firm to buy it, and if they haggle freely, there must ultimately be a price—the wage—that will allow the worker to sell his time.

But according to Keynes, this bargain does not realistically capture what happens in an economy with money and uncertainty. If the firm hires a worker, it encounters a certain rise in its costs, with no compensating certainty that the extra output the worker produces can be sold. Thus, even if the wage is very low, it may still not be worthwhile hiring the additional worker—unless all firms could be told that if they hired workers simultaneously, those workers' wages would provide the demand that justified the increased production. But that is what they do not know, and in the absence of a benevolent angel telling them, they act prudently and hire nobody. Unemployment, in short, can be involuntary.

Keynes was not describing the special circumstances of the 1920s and 1930s, as his critics patronizingly claim, when analyzing involuntary unemployment and so-called "wage inflexibility." He was making a statement about how the price mechanism works at all times. The hunter-gatherer model cannot be bolted on to the modern money-exchange economy by some sleight of hand about rational economic behavior; with money and uncertainty, the motion of the capitalist economy is fundamentally different. There are credit booms and persistent unemployment, and they characterize our times as much as they did his.

If money destabilizes the economy, the counterpart of that destabilization will be in financial flows. If there is too much hoarding, then there will be oversupply of liquidity; if there is too much spending, there will be an excessive buildup of debt.

Stabilizing a market economy, therefore, requires that governments have influence over financial flows, domestically and internationally.

This is the unifying theme in all of

Keynes's work. In his *Treatise of Money*, he is preoccupied with how the central bank can manipulate financial flows by altering bond sales and interest rates to change the overall price level. In the *General Theory*, his target is the larger one of mobilizing idle funds for investment by manipulating business expectations about future returns. If the government can assure private businesses that demand will be rising in the future, they can be more confident about borrowing for investment—the idle finance can be utilized after all. Low interest rates cannot do this by themselves; there needs to be the promise of demand in the future.

Keynes Saves

Keynes famously turns the free market chain of causation on its head; it is not higher saving that leads to higher investment and thus higher income, but higher investment that produces higher income and thus higher saving. In a depressed economy, increasing saving in order to increase investment will boomerang. Higher private or government saving will only depress demand, leading businesses to anticipate fewer customers and hence to invest less. Moreover, investment has a snowball effect on income and output, the so-called multiplier.

This is a much forgotten element in Keynesian thinking, because again his proposition rests upon the view that the market economy systematically malfunctions. For a classical economist, the economy is always at some best point of balance—the famous "equilibrium"—so that if there is unemployment it is because it has been chosen by prospective workers who refuse to work for prevailing wages. Resources are allocated the way they are because that is how market agents want it, and external government stimulus will only upset that balance. As a result, either there will be no effect or it will be self-defeating. Government borrowing will push up interest rates, choking off private investment by the exact degree government investment has risen. The two effects cancel each other out. (Curiously, in the years since Keynes's death, the "neoclassical" synthesis has become less and less Keynesian; today many self-described neo-Keynesians commend budget balance and expect the economy to return to a natural, and hence optimal, presumed equilibrium path.)

Keynes, in contrast, pointed to the dynamic consequences of investment, both government and private. Investment purchased the "lumpy" part of national output—the machines and factories that had long lives and that raised future productive capacity. In the process of raising capacity, investment so lifted employment and demand in the present that the process became self-justifying. When, for example, investment created jobs in the construction or machine-tool industries, that created demand; and that created more investment. As output grew, so savings grew—but after investment. There were no "crowding-out" effects of public deficits displacing private investment, because the whole system was in a state of permanent movement.

Thus the aim of policy is to find ways of acting upon the financial system—the true commanding heights of a market economy—so that the real economy functions efficiently. Monetary and fiscal policy, and active direction and control of the financial markets, are a continuum. The Keynes who designed an international financial system in 1944 is the same Keynes who 10 years earlier wanted Roosevelt to borrow to pay for public works and who inveighed against Britain's deflationary return to the gold standard in 1926. The means might be interest rate manipulation, changing taxes and spending, or even directing private lending; but the end game was influencing financial flows and acting upon expectations.

What is so refreshing about Keynes is his belief that the best form of economic policy is attack—and his willingness to find the theoretical justification for initiatives to boost growth and employment that turned the free market orthodoxies upside down. This required, as it does today, colossal self-

confidence, for the guardians of the orthodox view occupy the very pinnacles of the social and economic pyramid.

For all of Keynes's optimism that capitalism could be fixed, there is a political conundrum at the heart of the Keynesian project. Capitalism may need to be managed and regulated to give its best; but that implies that the business and financial elite give up some of their autonomy of action—the very autonomy that their economic power and personal inclination demands should remain unimpaired. In addition, policies that produce more output and stability of employment benefit the labor interest—and so again directly constrain business power. From the elite's point of view, it may actually be preferable to run the economy more unstably and inefficiently if the alternative is any reduction in its autonomy of action. In effect there is a trade-off between the larger welfare in which, although there is a business gain, it is uncertain and qualified by the certain loss of autonomy to reach that uncertain destination. An abiding attraction of laissez-faire is that it demands no such trade-off; rather it celebrates the current balance of economic power and requires the state to leave the business cycle alone.

Thus Keynesianism works best in those states that have democratic constitutions capable of best expressing a general or common interest over time, as well as institutions that mobilize wage earners to participate coherently in politics. There needs to be some combination of constitutional machinery that permits clear-cut executive action while respecting democratic disciplines, together with strong mass parties that can dynamise the system if Keynesian policies are to succeed; but few constitutions possess such qualities. Britain in the immediate postwar period, Sweden from the 1940s to the 1980s, and the United States around the New Deal threw up circumstances that permitted successful Keynesianism. But interest group politics and weak parties in the United States, and the demise of the Labor Party in Britain, undercut the capacity of both countries' political arrangements to express common interests. The vacuum was filled by the new right. These political exigencies have forced Keynes's interpreters to water down the Keynesian message in an attempt to rebuild support for at least a watered-down Keynesian program; half a loaf is better than no loaf at all.

Professor Skidelsky, for example, wants to rescue his hero from the stigma of being a liberal and to show that Keynes was as attached to sound money and free enterprise as any good conservative. But in so doing Keynes's more conservative interpreters are in danger of betraying Keynes's central insight. Keynes, a lifelong mocker of the conservative establishment in Britain and the United States, would not be falling in line today with proponents of price stability, deregulation, and balanced budgets as the precursor for growth; rather, they would be the objects of his coruscating scorn.

Those who counsel deficit reduction and tight monetary targets before the demands of the productive part of the economy would have been parodied as suffering from Freudian anal retention—in effect arguing that to do anything so disturbs the markets' natural processes that we must do nothing. The defenders of the Reagan and Thatcher economic miracles would be exposed for what they are: self-interested promoters of the rentier financial interest who like tight money and high financial yields and hence argue that the hollowing-out of the British and U.S. industrial sectors benefited everybody.

Keynes Lives

A Keynesian response today would have a number of strands ranging from implementing public works programs to recapitalizing chronically enfeebled banks. But his starting point would be an acknowledgement of the febrile condition of the national and international finance system. Global financial deregulation has estab-

lished a new financial regime that not only has begun to exert a permanent veto over individual states' expansionary economic policies but also is acting as a wedge for dismantling all forms of market regulation. The destabilizing buildup of private debt in the United States, Japan, Britain, and the Nordic countries in the 1980s, for example, was prompted everywhere by the new deregulated offshore markets forcing the dismantling of national systems of financial regulation. The consequent credit booms left a debt overhang that is inhibiting a balanced and sustained recovery; and there is no certainty that once recovery gets under way the same forces will not reassert themselves—and the boom-bust cycle will repeat itself.

So Keynes would be increasingly interested in the interrelationship between domestic policy options and the new international financial system—because that is the new deregulated locus of the unstable, inefficient market system. He would be exploring ways of stabilizing and reducing the vast movement of short-term capital that, because of the capacity to move so quickly and in such size, terrorizes governments into economic minimalism and public inactivity; turnover taxes in the foreign exchange markets and new tougher requirements on international banks' capital adequacy ratios so biasing them to behave more cautiously would interest him.

But he would go further. Capital flows from currency to currency in the expectation of capital profits, and with a system of floating exchange rates the possibility for making such profits is embedded in the system. Floating exchange rates are central to the system's functioning, because they facilitate capital movement; it is no accident that the explosion of capital movement has accompanied floating exchange rates. Thus if countries could find a way of reestablishing a means of pegging their currencies and adjusting parities to diminish the expectation of speculative profits and losses, that would reinforce the bias to stability—and give states a greater chance of running expansionary economic policies.

And for a man who lived through the financial consequences of 1929, the parallels with the world capital markets in 1993 would seem eerie. In the late 1920s buying on margin helped fuel a stock market boom, providing the collateral for the banks to lend more against not only rising stock market prices but real estate values. When prices fell the whole system unraveled, leaving banks with such capital losses that their capacity to lend was mortally impaired—the proximate cause of the U.S. depression.

Today the markets in financial derivatives, instruments that allow investors to bet on future financial prices by investing just a fraction of the value of the underlying asset—de facto margin trading—have proliferated wildly on a global scale that makes 1920s Wall Street margin trading look like child's play. Now, as then, the great international banks are accepting risks they scarcely understand by underwriting financial derivatives and buoying up stock markets and capital values; but if prices cracked the knock-on impact on bank balance sheets and their capacity to lend would be as severe as in the early 1930s.

The idea is that individual investors can use the derivative markets to gain protection against risk, but as Keynes would surely point out, by definition there can be no protection for the system as a whole. Keynes would be lobbying hard for proper supervision and regulation of a market that has gone mad. Banks do not know what risks they are running, and if the markets ever move unexpectedly, one bank will find itself with colossal exposure for which it is uncovered. It will renege on its obligations, and the system will crack. Keynes would be ridiculing bankers' protestations about the system's soundness for what they are: self-interested bleating.

Keynes's continual concern was the real economy—of employment, investment, and output. He would be increasingly disturbed at the intensity of international competition and the way countries find them-

selves having to make astonishing economic adjustments in a matter of months and years. Although he was a convinced free trader, he would insist that the system can be kept open and liberal only if states can regain the possibility of pursuing full-employment policies to counteract the resulting dislocations. Free trade, as he argued during the Bretton Woods negotiations establishing the postwar financial order, the International Monetary Fund and World Bank, requires regulated international finance to allow expansionary domestic economic policies. Nor is free trade an absolute imperative. If the dislocation is too intense, then free trade too may need to be regulated.

With unemployment in the industrialized West standing at 36 million and rising—and with inflation at a 30-year low—there is little doubt that Keynes would now be urging economic expansion led by governments. In economic management as in war, offense is the best means of attack. As a believer in the multiplier, he would urge debt-financed public works programs, scorning the paranoia about budget deficits. He would again and again stress the difference between current and capital government spending, mocking the classical economists' preference to pay to keep men and women on unemployment benefits. He would call for government accounts everywhere to be organized into current and capital components, thus highlighting scope for borrowing more, given the lack of debt in relation to government assets. And taxes, he would urge, should be lifted only once the economy was growing—and be targeted on the incomes of the well-off.

To the American right he would endlessly and patiently explain the economic benefit of state and federal debt. Highways, bridges, and education, for example, have yields that cannot be captured through the price mechanism and thus cannot be left to private initiative. A new road, for example, improves journey times not only for those who use it but for those who use the old roads from which traffic has been diverted. Real estate values improve along the road. Business turnover rises. The only economic agent that can capture the benefit is the state through taxes and reduced social security spending; it is thus the state that must finance the construction of the road—and if the returns are demonstrable there is no reason why the money should not be borrowed. Indeed, the spending on the road will snowball around the economy—the multiplier.

Nor would he allow fear of inflation to stymie his expansionary recommendations. Although aware of the destructive impact of inflation on democratic societies, he would have mocked the fear that inflation of 3 percent or 4 percent presaged hyperinflation and the end of democracy. Indeed, he would be the first to see that a rise in the price level would have the advantage of reducing the real debt overhang and restoring the viability of the banking system—and he would have drawn a distinction between a once-and-for-all increase in the price level and inflation.

Indeed, given the centrality of the financial flows in his thinking, he would be anxious to get the banking system back on its feet. He would be championing government-led schemes for retiring mortgage debt from distressed borrowers. Initiatives to recapitalize the banking system so it could undertake long-term lending would pour from his pen—while the case for taxing the over-rich, redistributing to the poor to boost consumption, would seem overwhelming.

The operation of the financial system on investment, particularly in Britain and the United States, would be a major preoccupation. Keynes was always critical about the stock market principle of buying and selling enterprise freely from day to day—as if the farmer can sell in the morning when it is raining and buy back in the afternoon when the sun is shining. The explosion of turnover in the capital markets would

profoundly trouble him. Wall Street is becoming increasingly disengaged with the enterprises that it finances, and wealth creation is more and more a question of short-term financial engineering and paper entrepreneurship.

Indeed, the hollowing out of the U.S. economy has less to do with low-cost international competition than with the incessant demand for dividends from the institutional holders of most of the nation's equity. Under permanent pressure to beat the average performance indices, pension funds, insurance companies, and mutual funds have begun to regard dividends not as the return for risk—but as an income stream that should be as secure as interest payments on risk-free debt. As a result, company managements are compelled to make current assets work harder to deliver the required dividend stream, while using cash flow to support future investment risks the disapproval of the dividend-hungry institutions. Required real rates of return in the United States are spectacularly high in comparison with Japan and Germany; but that is the price managements must pay to persuade uncommitted and footloose institutions not to sell their shares. Wall Street has become the prime cause of U.S. deindustrialization.

After the end of the Cold War, Keynes would feel the necessity for magnanimity by the Western victors. The condition of the former Soviet Union and Eastern Europe would alarm him immensely, with unemployment and despair potentially fueling ugly political movements with an arsenal of nuclear weapons at hand. Turning around these depressed economies would not only alleviate a security threat, it would create an expanding market for Western goods. He would be ceaselessly traveling the West's capitals trying to drum up support for a Marshall aid plan for the former communist world. Defense spending in the West should be slashed and the money spent instead on supporting the growth of Russian capitalism—and he would be careful to support the social market variant of western capitalism rather than its pitiless Anglo-Saxon strain.

And Keynes being Keynes, he would have access to Clinton, Hosokawa, and Yeltsin. His books and pamphlets would be selling worldwide, and at home he would be busy sponsoring new drama and dance. The spirit of optimism and action he craved could not take place in a cultural vacuum; it needed counterparts in the world of art and architecture. Confidence about the future and the capacity of the commonweal to act in the public good is an attitude of mind; it needs buttressing from every quarter.

But we do not have such a man, nor is one on the horizon. Yet the least we can do is to understand what he stood for and why. Part of his effectiveness was that he was able to terrorize the Anglo-Saxon establishment with the prospect of communism if the capitalist economy failed. But that terror has gone.

Instead, Keynesians have now to point not to the prospect of a communist revolution but rather to the slow and pervasive decay of Western society brought about by running economies with millions of jobless and semi-economically active people. The collapse of employment for unskilled men is a major cause of U.S. violence; and as expression through work becomes remoter for millions throughout the West, so they turn to nationalism and religious fundamentalism. Protection and confrontation start to characterize international relations, and who can know where that will lead?

But the gains from public initiative are diffuse while the costs are certain and concentrated; and in any case the linkages between economic failure, social distress, and political calamity, while obvious, cannot be proven. For the moment the classical economists and their political allies continue to dictate the agenda. They have failed this century before with disastrous consequences; they will fail again. We need a Keynes. Without him, we need to revisit the extraordinary power of his ideas.❖

Altered States

Managing the Global Economy

Walter Russell Mead

Keynes's economic thought recast the Anglo-American political economy in the light of the evolution from the ruthless but dynamic Victorian economy of the nineteenth century to the more accommodating but flaccid administrative economy of his own era. Keynes believed that the slowdown in growth that afflicted most Western countries between the world wars was a return from the aberrant dynamism of the Victorian period to a normal condition of slack economic growth. In modern British history he saw a persistent economic bias toward stagnation and deflation offset only by relatively short periods of growth; Keynesian economic policy was an attempt to overcome the deflationary tendencies of capitalism and to accelerate the progress of technology and living standards.

As Keynes so famously said, "In the long run, we are all dead." In the half century since Keynes attained that long run, the world has changed considerably. Whatever the truth of Keynes's beliefs about long-term economic performance, it is clear that the administrative capitalism for which he prescribed is also as dead as the Victorian capitalism that preceded it. The "mid-century model" of stable industrial oligopolies, strong unions, and closed national economies that dominated Keynesian economics has dissolved. The new era of fierce global competition between firms based in Europe, North America, and Japan, combined with ruthless pressures on labor and costs, is very different. In some respects—its dynamism and ruthlessness—the new form of capitalism is almost Victorian. In other respects—its concentrations of capital, scale of enterprise, sophisticated financial base—it resembles a further development of the structures of administrative capitalism. In its "globalized" system of production, the rise of East Asian markets and methods, its emphasis on flexibility, and its shift away from the production and distribution of raw materials and commodities to the production and dissemination of "information," the contemporary economy is distinctively different from anything that preceded it.

Global Keynesianism attempts to adapt the Keynesian vision to new conditions and to develop prescriptions from a Keynesian standpoint that can accelerate economic growth and development in the emerging economy. As such it confronts three problems: the problem of scale, the problem of demand, and the problem of change.

The Vanishing State

The problem of scale arises because national economies are no longer closed. The growth of international capital markets, the globalization of major corporations, and the integration of international trade have produced a new situation. States today exist within an international economic system that limits their freedom to act and affects

their internal economic health to an unprecedented degree. One can almost compare the contemporary state to firms in classical economic theory. Within limits that vary from state to state, they must adapt their domestic policies to international conditions or face disastrous consequences.

The new global economy has not been investigated very seriously from a theoretical point of view. Global Keynesians argue that it is a fundamentally different thing from the national and local economies that compose it. One might say that megaeconomics, the study of the new international economy, is to macroeconomics as macroeconomics is to microeconomics. In particular, sound macroeconomic policy by national governments does not necessarily create a sound megaeconomic climate. In the present condition of glutted markets and persistent downward pressure on wages and prices, national governments are tempted to respond with restrictive macroeconomic policies aimed at controlling domestic demand and generating trade surpluses.

This is similar to the well-known problem analyzed by Keynes and others by which "sound" policy by microeconomic actors like households and firms can have adverse macroeconomic consequences that then redound on the microeconomic actors. If, for example, firms respond to recessionary conditions by laying off workers and cutting production, while households respond by retrenching on expenditures and increasing savings, the recession will deepen—cutting the incomes of both households and firms even further.

This fallacy of composition—what is good for the parts is not always good for the whole—operates at the megaeconomic level as well. If the European Community, Japan, the United States, and the world's developing economies are all trying to limit their demand and improve their trade balances, the global economy will decelerate and all its members will be worse off. As a result of the Keynesian revolution in macroeconomics, national governments acquired mandates to act for the benefit of the whole. Through fiscal and monetary policies they act to encourage consumption and investment in bad times and to rein them in when booms threaten to get out of control. They attempt to create a climate in which the decisions of microeconomic actors reinforce rather than detract from the general good.

Global Keynesians would like to see similar policies at the international level. They would, for example, like to see the International Monetary Fund and the World Bank given more resources and revised mandates so that they—working with national central banks and other authorities in much closer cooperation than is now practiced—could help ensure that megaeconomic conditions promote macroeconomic prosperity.

Globalism and Demand

The second problem of global Keynesianism is the problem of demand. A key feature of the Keynesian economic revolution was the overthrow of Say's Law: supply creates demand. The investments, wages, and payments to suppliers create a market large enough to purchase the goods produced, according to Say. Keynes disagreed, noting that people put some of their incomes aside as savings. Say and his successors believed that savings would necessarily be equal to investment and that the cycle would balance. Keynes claimed there was no necessary connection between savings and investment. A recession might make households save more of their current income because of their fears for the future. Those same fears would act on entrepreneurs, reducing their desire to make new investments even as the supply of savings increased and interest rates fell.

The problem of effective demand remains central to Keynesian thinking, and global Keynesians are interested in the problem of demand at the megaeconomic level. In the shift of manufacturing jobs from high-wage countries to low-wage countries, and in the rapid relative growth of high-savings economies in East Asia, they see the potential origin of glutted

markets and slowing growth worldwide. They fear that attempts by Western nations to become more competitive by reducing production costs will only worsen the global economic situation.

Global Keynesians would like to see initiatives calculated to ensure that global demand rises *pari passu* with global production. This leads to a set of policy prescriptions that are somewhat different from those of mainstream economists. In the current context, for example, the global Keynesian approach to trade with Pacific Rim nations would not place its primary focus on liberalization of East Asian markets. It is the size of those markets, not the national origin of the products sold there, that disturbs the global Keynesian.

According to World Bank data, Japan spends about 5 percent of gross domestic product on social programs and has a domestic savings rate of about 30 percent. Most Western economies spend more than 20 percent of GDP on social programs and have savings rates close to 20 percent of GDP. If Japan increased its consumption by 10 percent of GDP, a new market of $210 billion a year would be created. This would enhance the living standards of the Japanese and increase profits for both Japanese and foreign producers. By contrast, most estimates of the effects of trade liberalization in Japan suggest much smaller benefits.

Even if the Japanese market remained protected, the results would be beneficial. Imports now amount to 11.2 percent of Japan's GDP; assuming an unchanged propensity to consume imported goods, foreign producers would capture $23.6 billion in new orders from Japan. But the Japanese would meanwhile purchase $186.4 more goods produced at home. Assuming a classically Keynesian multiplier effect, the wave of domestic purchases would generate new income and this, in turn, would generate more purchases and more income. The final effect on the global economy would be substantial and beneficial regardless of whether Japan liberalized its markets.

Increasing government spending on pensions would effectively stimulate the consumer economy in Japan and East Asia. Pension income would give elderly people purchasing power and reduce the pressure on individuals to save for retirement.

There are other initiatives that could increase global demand and therefore prosperity. A shift in agricultural policies away from subsidies for production toward subsidies for consumption could feed hungry people in developing countries while liberalizing agricultural trade and allowing Western farmers to compete on equal terms for new markets. If governments transferred the money they now spend on agricultural subsidies and export programs to programs that enabled poor families in developing countries to buy more food, more hungry people would be fed and more farmers enriched—even as market distortions decreased and efficient producers were rewarded. Other initiatives would see international organizations, from the IMF to the World Health Organization, providing assistance to developing countries seeking to increase domestic consumption. Child vaccination programs and public works programs to improve water supplies create markets in poor countries and jobs in rich ones; in the current state of the world economy even relatively small outlays on these programs would have a substantial effect on the economic problems of western Europe and North America.

Further, global Keynesians look to raise wages in developing countries rather than to drive them down in advanced economies. Conventional economists seem comfortable with the present tendency of unit labor costs in advanced countries to fall toward the levels of the developing world. The need for wages to fall is an *idée fixe* for conventional economic policy prescriptions, but this is dangerous. Falling wages can mean shrinking markets; the result can be a long-term downward economic spiral with producers continually attempting to cut costs to sell into a shrinking market.

Global Keynesians think that the con-

tinued erosion of consumer markets in the EC and North America will ultimately have disastrous effects not only in those countries but in the developing world as well. Without healthy consumer markets in the West, Asia cannot grow. Politically, unemployment and/or falling wages in the West also mean trouble in the East. The pressures for protection become stronger when workers believe that foreign competition is reducing their standard of living.

The solution appears to lie partly in the demand-enhancing ideas outlined above and partly in changes in labor-market regimes in the developing world—especially in East Asia. Restrictions on trade union activities in these countries often violate international human rights law; a more permissive stance toward free trade unions would encourage wages to reach an equilibrium level similar to that in the West.

Global Keynesian policy would focus almost exclusively on supporting increases in low wages rather than bringing down high wages. It would seek international solutions; acting together, all or most of the East Asian nations could make beneficial changes that none of them could carry out alone. A Keynesian approach to East Asia would not rule out certain initiatives to make labor markets more flexible in the EC and the United States. Legislation to remove tax burdens from employers to the general community, establishing special training wages and programs for young workers, and—within the context of an overall improvement in labor markets—allowing European employers more flexibility in hiring and firing could improve the employment situation in the West without reducing purchasing power.

Dynamism Again

The third problem facing global Keynesianism is that of change. The shift from the administrative economy of the mid-century period to the global economy now emerging requires fundamental shifts in the Keynesian economic program. The easy synthesis of Keynesian ideas and the aspirations of social democracy in the middle of the twentieth century is no longer simple.

Take government investment policy. Keynesian economics calls for public investment when private investment is insufficient; nationalization of key industries was high on the agenda of social democracy earlier in this century. It was easy enough for Keynesians to support that as part of an investment policy and for governments to carry out counter-cyclical economic stimulus through wage and investment policies in the nationalized industries. This is a false step in many if not all cases.

The import-substitution model of development—an adaptation of Keynesian ideas to the special conditions of developing and postcolonial economies—is no longer viable. Furthermore, the implicit social model of mid-century Keynesianism—a disinterested meritocratic priesthood of social engineers administering a depoliticized society in the name of the general interest—is no longer appealing in many countries.

The administrative Keynesians of the past seem to have made the unKeynesian error of assuming that the social, political, and economic conditions with which they had to deal were immutable. They were economic uniformitarians, believing that economic change came gradually and nondisruptively. The telling image of a "mature" capitalism that they used to describe the realities of their day—a capitalism that had settled down into a responsible middle age, with the follies and excesses of its youthful exuberance safely behind it—was at best premature.

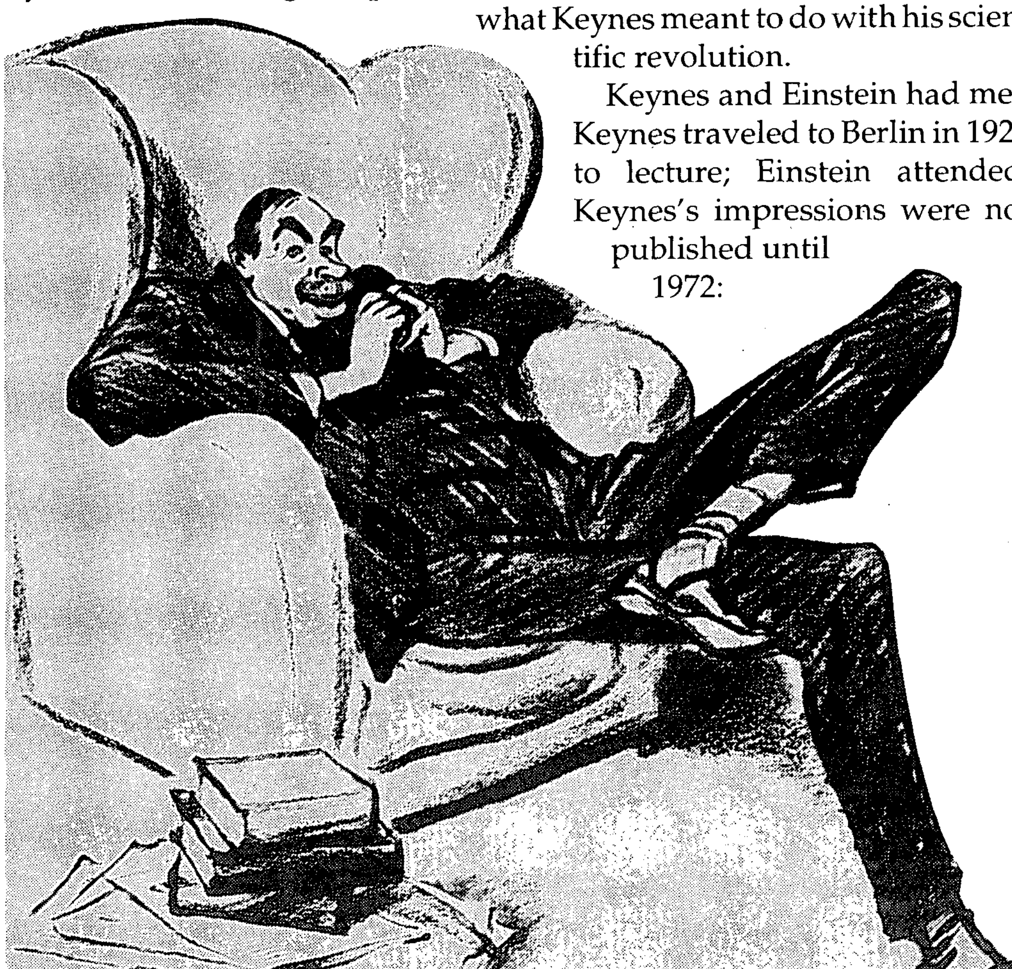
A revived Keynesianism capable of serving as the economic basis for a contemporary philosophy of governance must address these realities. Fortunately, the spirit of flexible and humane response to changing social conditions is at the heart of the Keynesian vision. In pressing beyond the limits of mid-century Keynesianism, global Keynesians are true to the spirit of the Cambridge economist however much they violate the letter of the counsels of his heirs.

Keynes, Einstein, and Scientific Revolution

James K. Galbraith

One of the most intriguing and little-noted facts about John Maynard Keynes's masterwork, *The General Theory of Employment Interest and Money*, concerns the first three words of its title. These are evidently cribbed from Albert Einstein.* Alone that would be only a curiosum; but there is more. The parallels between Keynes's economics and Einstein's relativity theory are deep enough, and evidently intentional enough, to provide a useful framework for thinking about what Keynes meant to do with his scientific revolution.

Keynes and Einstein had met. Keynes traveled to Berlin in 1926 to lecture; Einstein attended. Keynes's impressions were not published until 1972:



Artwork by David Low, reprinted by permission from *The New Statesman and Society*

> Wordsworth, who had not seen him, wrote of Newton's statue: "The marble index of a mind for ever Voyaging through strange seas of Thought, alone." I, who have seen Einstein, have to record something apparently—perhaps not really different—that he is "a naughty boy," a naughty Jew-boy, covered with ink, pulling a long nose as the world kicks his bottom; a sweet imp, pure and giggling. (*Collected Writings*, Vol. X, p. 382.)

A second reference appears in *The New Statesman and Nation* of October 21, 1933. For this issue, Keynes prepared a short commentary to accompany a sketch of Albert Einstein by the artist David Low. The playful imagery is now gone, and by this time Keynes has become concerned about Jewish refugees. Now, to Keynes's eye, Low's drawing evokes an Einstein under attack. Keynes quotes Einstein in the German:

> "Assuredly you too, dear reader, made acquaintance as boy or girl with the proud edifice of Euclid's geometry"—thus begins the "Essay on the Special and General Theory of Relativity"—"assuredly by force of this bit of your past you would beat with contempt anyone who casts doubts on even the most out of the way fragment of any of its propositions." It is so indeed. The boys, who cannot grow up to adult human nature, are beating the prophets of the ancient race—Marx, Freud, Einstein. (*Collected Writings*, Vol. XXVIII, p. 21)

The first extant complete table of contents of Keynes's next book, then titled simply *The General Theory of Employment*, was found in a bundle of papers dated December 1933. (*Collected Writings*, Vol. XIII, p. 421). In the first proofs of that book there is a sentence, deleted from later proofs, that occurs exactly at the point where Keynes declares that the classical theory cannot be applied to the problem of unemployment, and just before this passage:

> The classical theorists resemble Euclidean geometers in a non-Euclidean world who, discovering that in experience straight lines apparently parallel often meet, rebuke the lines for not keeping straight—as the only remedy for the unfortunate collisions which are occurring. Yet, in truth, there is no remedy except to throw over the axiom of parallels and to work out a non-Euclidean geometry. Something similar is required in economics. (*Collected Writings*, Vol XIV, p. 366)

The deleted sentence reads, "We require, therefore, to work out a *more general theory* than the classical theory" (italics added).

Mark Twain writes somewhere that "some circumstantial evidence is very strong, as when you find a trout in the milk." But what, if anything, does it mean?

Newtonian Physics and Classical Economics

Albert Einstein came of age in a world where the classical physics of Sir Isaac Newton still reigned. Two features of Newton's worldview are pertinent to understanding the classical economics that Keynes meant to attack.

The first is that Newton's physics presupposes an absolute separation of space and time. Space is Euclidean: a three-dimensional void stretching infinitely in all directions. The position of any particle in

* This point was first made to me in private conversation by Robert Skidelsky. The economists Ching-Yao Hsieh and Mėng-Hua Ye devote a short chapter in their book, *Economics, Philosophy and Physics*, stating it would not be an exaggeration to assert that Keynes's theory of involuntary unemployment was inspired by Einstein. They do not, however, explore the parallelism between space-time and monetary production. Nor does Skidelsky, who discusses the Einstein link in his second volume on Keynes. Philip Mirowski, whose 1989 book *More Heat than Light* is a fundamental treatment of the relationship between physics and economics, also leaves out the Keynes-Einstein tale.

space can be defined, by means of a system of coordinates, with respect to any observer or any fixed reference point. Motion is the displacement of the particle from one position to another. Velocity is motion, divided by the number of ticks on a clock that it takes for the motion to occur. The clock that is used to measure velocity lies, in a conceptual sense, outside the universe itself. In other words, all observers of an event, provided they were equipped with accurate timepieces, no matter where they might be, would always agree on the exact time that the event occurred. Newton imagined time as an absolutely regular phenomenon that could not depend on the location of the clock or be affected by its movement or any other physical force.

The second feature is reductionism: Newton's universe was neither more nor less than the sum of its component particles. Gravity in Newton's system is the basic force exerted by one massive body on any other. Gravity produces the acceleration of a particle in space, according to the position and mass of all other particles in the universe that exert gravitational force. And, in Newton's view, this interaction of each particle on every other is all there is. Once you knew the position, mass, direction, and velocity of every particle in the universe, you would not need to know anything else. Every future event would be fully determined by the laws of motion.

Without going into great detail, it is possible to trace out the role of each of the above features in the classical economics of Keynes's time and in modern neoclassical economics. The analog of space is the market. Look at any supply and demand diagram. The graph itself is a two-dimensional space. Every point on the graph is a position defined uniquely with respect to the origin. The relationships between variables are presented as forces in this space: in the labor market, demand aligns wages and employment in a downward sloping relation; supply aligns them along an upward slope. If two curves cross in that space, their point of intersection is an equilibrium position, where the forces balance and the market clears.

The analog of Newtonian time, in the classical economics, is money. Just as time is absolutely separate from space, money is absolutely separate from the market. Prices and wages may be measured in money terms, but this is only a convenience. The prices that count are relative prices—prices in relation to the prices of other goods. The wages measured in a proper labor market are real wages—an hour's work in terms of the commodities that an hour of work can purchase. Like time, money is an invariable standard. And just as it does not matter whether one measures time in seconds or in hours, or from Andromeda or Cassiopeia, it does not matter whether one measures

prices in dollars or dimes, in pesos or yen, or in dollars of 1958 or dollars of 1993. The quantity of money has no effect on the equilibrium of the market; nothing real depends on money in any important way.

The reductionism of Newton's system is equally fundamental to classical economics and remains so today. Economists are taught that societies, like Newton's universe, are nothing more than the sum of their individual components. Macroeconomic expressions, though they purport to describe the behavior of society as a whole, are only a shorthand for the mass of individual human actions. In principle, therefore, the best macroeconomics would be built strictly and rigidly from the theory of individual behavior, or microfoundations. If there are operational difficulties with this, they must lie mainly in the difficulty of acquiring all the information that is necessary about all of the individuals whose preferences and behavior must be considered. Fundamental difficulties of theory do not arise.

Einstein and Newton's Mechanics

By the time Keynes came along, the Newtonian view of the physical universe had crumbled. Einstein's theories of relativity had done it in. The absolute separation of time and space collapsed with Einstein's introduction of a new universal constant, the speed of light. If light traveled through empty space, everywhere and always and irrespective of the direction and velocity of the observer (as Einstein argued and experiments have confirmed) at the same identical speed (186,000 miles per second), then the absolute simultaneity of two or more very distant events could no longer be defined. Clocks in different places will record these events at different times, and none is more correct than any other. Moreover, Einstein showed that space and time are interrelated—time itself advances more slowly near massive bodies than it does in empty space.

Furthermore, this newly unified concept, space-time, also destroyed the Euclidean concept of emptiness extending forever in all directions. Space-time is curved, and Einstein's relativity is the extension of the Riemannian geometry of curved spaces to the physical universe. Near any massive body, the shortest distance between two points curves around, as does the path of a ray of light. For this reason, parallel lines may meet if extended far enough. (Keynes's reference to overthrowing Euclid's axiom of parallels is an unmistakable allusion to this feature of Einstein's theory.)

But if space-time is curved by the presence of matter, then the shortest distance between two points is no longer defined independently of the distribution of matter in space. And then the system is no longer reducible to its elements; you can no longer get to the whole merely by adding up the parts. The universe is, instead, more easily and more correctly understood by looking at the whole and placing the parts within it. The whole can impose rules on the parts: in a famous phrase, "Space tells matter how to move; matter tells space how to curve."

Relativity Theory and Monetary Production Economics

When Keynes wrote his *General Theory*, he had in his gunsights—I shall argue—both Newton's reductionism and his space-time dichotomy, as both were reflected in the classical economics. First, Keynes sought to disestablish the "absolute space" of classical markets and to end the separation of markets from the world of money. Keynes characterized his theory as a monetary theory of production, giving lectures on this subject in the fall of 1933 as the *General Theory of Employment* (the preliminary title) was taking shape. Keynes contrasted monetary-production economics with what he called the real-exchange economics of the classical view. In so doing, he broke down the traditional non-monetary concepts of a "labor market" and a "capital market," suffusing both subjects with ideas—"effective demand" and "liquidity preference"—that cannot be conceived of properly except in monetary terms.

Monetary-production is Keynes's space-

time: the marriage of conceptual domains previously held to be distinct. In the classical theory of the labor market, for example, Keynes found a first postulate that held that the demand for labor would rise when real wages fell, and vice versa. This was a consequence of the principle of diminishing returns, an idea that Keynes did not choose (at that time) to dispute. But the idea that demand for labor rises as wages fall cannot, by itself, establish the actual level of employment or the value of the real wage.

The classics had closed their model with a second postulate, which held that work-time offered would increase when real wages rose. This second postulate was precisely that part of the classical vision that reduced unemployment to a matter of individual decision. If a person was apparently unemployed, it should always be possible for him or her either to find work or to eliminate the desire to work and therefore the appearance of unemployment, by sufficiently cutting the wage.

Keynes had in his gunsights Newton's reductionism and his space-time dichotomy, as both were reflected in the classical economics.

For Keynes, this second postulate, the upward-sloping supply curve of labor, was akin to the axiom of parallels in Euclid's geometry. It should likewise be rejected. In doing so, Keynes threw over not only the supply curve of labor but also the whole idea of a self-contained labor market in the normal supply-and-demand sense, a construct in which real wages and employment could be modeled together as though one depended directly on the other. In its place, Keynes offered the now-familiar, but then revolutionary, idea that employment was determined by effective monetary demand for output. Since there was no reason why the total demand for output would necessarily correspond to high or full employment, involuntary unemployment in the strict sense would now be possible in economics.

But what would determine effective demand? Such demand could be divided into two major elements: the consumption demand of households and the investment demands of business. Here Keynes's reasoning led him to dismantle the second metaphorical classical, supply-and-demand market, namely the capital market. In the classical theory, the supply of and demand for capital jointly determined a quantity, namely the total volume of savings and investment, and a price, namely the rate of interest. Investment was demanded by firms, with more being demanded at low interest rates than at high. Savings was supplied by individuals, with more being supplied at high interest than at low. Thus a market for capital determined how much of current output would be consumed and how much saved and invested. This market, it should be noted, operated wholly apart from the determination of output. Investment and savings did not affect employment and output, only the division of output between current consumption and capital formation.

Here again, Keynes attacked the supply curve. Savings, he proposed, had nothing to do with the interest rate. They were, instead, merely the leftovers after consumption out of income. Investment, he believed, did depend on the interest rate. But a curve of investment demand alone could not determine both the volume of investment and the rate of interest. Keynes now needed an independent theory of the interest rate.

To get an interest rate, Keynes brought in a new market, up to that point largely ignored in economics: the market for debt instruments and, in particular, for money. Interest, he proposed, was not a reward for saving but the reward for giving up the liquidity, the easy access to immediate pur-

chasing power, that could be had by holding money. As anyone who has bought a bond or a certificate of deposit knows, the longer the term (the greater the liquidity forgone), the higher the rate of interest. Keynes argued that the interest rate thus reconciled the supply of liquidity (quantity of money) with the demand for it. And in Keynes's new sequence, the interest rate determined in the money market in turn determined the volume of investment.

To complete his theory, Keynes tied these elements together. The market for money determined interest. Interest (and the state of business confidence) determined investment. Investment, alongside consumption, determined effective demand for output. Demand for output determined output and employment. Consumption out of incomes determined savings. Employment determined the real wage.

In this world, a change in monetary policy, such as a cut in interest rates leading to an increase in bank credit, now had fundamental real consequences. The classical dichotomy, in economics as in physics, had been broken. And with the deconstruction of labor and capital markets, the reductionist idea of microfoundations had also to be abandoned. Workers, Keynes pointed out, bargain for money wages, not real wages. The act of dropping money wages would generate feedbacks through previously unrecognized—monetary—channels in the system. In particular, prices would fall, and real wages (the ratio of wages to prices) would therefore not necessarily change. Falling prices might, however, depress business profit expectations and so cut into demand for investment. This would actually reduce the demand for workers and prevent total employment from rising. The system interacts with itself, and a full employment equilibrium cannot be achieved within the labor market. Economic space-time is curved.

Consequences

In the long run, Keynes did not achieve what he hoped. His parallel to Einstein went virtually unnoticed. Lawrence Klein, writing an early interpretation in his 1947 work, *The Keynesian Revolution*, did emphasize Keynes's attacks on microeconomic supply curves. But in the United States, the prevailing view became that of Paul Samuelson, who transposed Keynes's unemployment theory into the proposition that wages are "sticky." In this interpretation, unemployment occurs simply because labor markets, characterized by supply and demand curves just as in the good old days, do not clear. What Samuelson did—and he is, I think, too good a student of physics not to have known it—was to push the daemon of Keynesian relativity back into its box. And modern American Keynesians, even down to the New Keynesians currently in fashion around Harvard, MIT, Princeton, and the Council of Economic Advisers, are Newtonian and Samuelsonian to the core, perhaps with a touch of Von Neumann thrown in nowadays. As such, they have denied themselves the high ground of principle Keynes sought to claim, conceding an enormous advantage to classical free market conservatives on every important policy matter.

Too bad. For one cannot say, as one can with Newtonian physics, that Newtonian economics is good enough for practical situations. The scale of the whole, in the economic case, is not that of the universe or the solar system; it is merely that of the nation-state or the global region. Interdependence afflicts us all. The global irrationality of wage cutting, American budget balancing, zero-inflation Federal Reserve targets, and Third World austerity programs is an everyday occurrence. The failure of Keynesian macroeconomics to establish full theoretical independence from the classical labor market and the classical neutrality of money means that we are, in effect, now denied fair discussion of Keynesian solutions to policy problems. The end result is that we cannot cope now, any more than could the classics in their day, with stagnation and involuntary unemployment.

System Crash

How Workers at IBM Learned That Knowledge Isn't Power

John Hoerr

Early on Tuesday, March 30, 1993, Michael Cunningham, 41, was summoned to a manager's office in a lab connected with IBM's Poughkeepsie, New York, plant. The son of a retired IBM manager, Cunningham was steeped in the company's regimented culture and zealous attention to detail. He had started on the manufacturing line in 1977 and, through initiative and diligence, advanced to an administrative job as a manufacturing methods specialist on the hourly payroll. His annual pay of $35,000-plus provided a decent living for his wife and three children. A few years earlier, IBM had carried Cunningham through a six-month recuperation from a heart attack, for which he felt indebted to the company.

The manager handed Cunningham a short letter that said, "You have been designated as 'surplus employee' effective immediately." His supervisor took his IBM badge and led him from the building. Cunningham noticed strangers—security guards—patrolling the hallways.

"I felt like a prisoner, like I was being watched," he says. "Sixteen years I was there, and they had people walking security." He never returned to his office.

By the end of that day, 7,700 employees in the Mid-Hudson Valley had been "surplused," as it came to be known. It was one of the largest mass dismissals in recent corporate history. In each case, the surplused worker was led from the premises. Some broke down and cried in the parking lot. Local officials had asked gun shops to close for the day, and police stood on alert. Despite IBM's apparent fears of reprisals, few incidents were reported. Over the next several days, many employees were allowed to return to collect personal belongings.

The expression "surplused IBM workers" has passed into everyday speech in Dutchess County, New York, as a sort of bitter commentary on the company that once meant everything to workers and their families. It appears in headlines, shop-window advertisements, and ironically in "help wanted" ads for menial jobs.

"That word was the most disgusting word I ever heard," Cunningham says. "It told me I was excess baggage, junk, garbage."

Of the 7,700 workers designated surplus, Mike Cunningham and about 3,000 others were fired outright. They received standard severance pay of two weeks for each year of service up to 26 weeks, health insurance coverage for one year, and a $2,500 retraining or education grant. The remaining surplusees, mainly workers who were old

Photo by Jack Kurtz, Impact Visuals

enough or had enough service to qualify for a pension within seven years, had a few weeks to decide whether to accept a retirement package. In the end, no one gambled on an unlikely IBM revival in the Hudson Valley.

Ten years ago, similar scenes were being played out in dozens of industrial towns across the Rust Belt, in the Monongahela and Upper Ohio Valleys, in Flint, Akron, and Youngstown. Scores of communities have never recovered. Today's jobless IBMers in Dutchess County face the same grim prospects—at least in the short term—as the mill workers of the 1980s in Allegheny County, Pennsylvania. Like the mill workers who were willing captives of the steel industry, the IBMers were happy prisoners in a "closed" system—IBM and its dominance of Dutchess County.

International Business Machines once was considered the model of American business, a blue chip investment, devoted to its workers, proud of its record of never laying off a single employee. Yet even this giant high-tech company was not immune to failure. Could the surplusing have been avoided? If even this citadel of lifetime employment was forced to fire thousands of employees, is there any hope for job security anymore? What does the high-tech future hold for employees who may be bounced from one "virtual corporation" to another? If they cannot have job security, can they at least have employment security?

The Exemplary Employer

When many people think of IBM, they think of Armonk, the site of its headquarters in Westchester County, just north of New York City. Its main computer manufacturing center, however, lies some 60 miles north of the city in Dutchess and Ulster counties, which border the Hudson River.

During World War II, IBM manufactured munitions at a small plant in the Town of Poughkeepsie in Dutchess County. (The Town of Poughkeepsie consists mainly of suburbs that defected from the older City of Poughkeepsie.) When founder Thomas J. Watson, Sr., died in 1956, his son, Thomas, Jr., plunged the company heavily into the burgeoning computer field. He expanded the Poughkeepsie plant and built a new one at Kingston in Ulster County to turn out mainframe computers. A third factory, at

East Fishkill in Dutchess County, supplies computer chips to the mainframe plants.

Despite the growing IBM presence, Dutchess County did not turn into a grimy Rust Belt area with stinking smokestacks. The western, industrial half of the county consists largely of semirural villages with housing tracts sequestered in rolling hills. It contains one ugly slice, a 12-mile stretch of U.S. Route 9 that runs from I-84 north to Poughkeepsie and is flanked by endless strip malls. But in the north are the Roosevelt and Vanderbilt estates in Hyde Park and charming Rhinebeck, with its arts and crafts industry. The eastern half of Dutchess has dairy and horse farms, wooded ridges, and lonely country roads.

At the time, everybody in Dutchess County assumed IBM was invincible.

This diversity, however, does not extend to its manufacturing base. At the employment peak in 1985, more than 31,000 people worked for IBM in this Mid-Hudson area. In Dutchess County, IBM accounted for more than 20 percent of all nonagricultural employees and 69 percent of the manufacturing work force. The East Fishkill factory employed 13,500 people, Poughkeepsie 10,000, and Kingston 8,000.

Over 30 years, the region deepened its dependence on IBM's jobs, property taxes, and paternalism. It seemed like a good bargain. Through the miracle of high-tech, IBM had come to symbolize the postindustrial, multinational corporation, dedicating its vaunted business strategy, technology, research capabilities, and vast sales network to seeking out and serving future growth markets. Because it made a difference in the world, IBM had its pick of the best and brightest.

For its part, IBM was an exemplary employer. It provided good wages, excellent benefits and usually adhered to the principle of "respect for the individual" fostered by founder Watson. In early Depression days, he kept unneeded workers on the payroll by stockpiling inventory in lean times, initiating IBM's famed "full-employment" policy.

The Mid-Hudson plants led the industry in developing large computing systems, including the enormously profitable System/360 line of mainframes used by almost all corporations for data processing. IBM's near-monopoly in this business, writes Paul Carroll in the recently published *Big Blues: The Unmaking of IBM*, "provided two-thirds of the company's profits, profits so big that they provided the whole basis for the IBM way of life—the lush bureaucracy, the impeccably trained sales force, the lifetime employment, the respect for the individual."

At the time few in Dutchess County questioned IBM's growing dominance of the region. On the contrary, most welcomed it. Former County Executive Lucille Pattison was fond of saying, "Sure, we have a one-horse town, but our horse is a thoroughbred." It was taken for granted not only that IBM was invincible but that its very presence turned the Mid-Hudson Valley into a high-tech hothouse in which upper-end businesses would sprout from seeded earth and provide a never-ending crop of jobs.

While IBM's Computing Systems Division in the Mid-Hudson was booming, the workers had a very nice living, indeed. They made good money for the region, well over $30,000 a year on average. They had short trips to work, well-maintained highways, good schools, and sound municipal governments. They could hunt and fish nearby, take in the offerings of a thriving cultural community, shop at the nearest crossroads strip mall or at the crowded discount stores on Route 9.

There was an IBM Country Club, an IBM Rec Area, IBM golf courses and tennis courts. Patrick Manning, the county legislator from East Fishkill and the son of a now-retired IBM manager, grew up in East Fishkill in the 1960s and 70s when IBM was

a central presence in everybody's life. "I have some of my fondest memories of the IBM Christmas parties. They gave presents to kids, and there would be a circus and Santa would come. On Family Day, everything would be free, rides and food. Every year the company took members of the Quarter Century Club to the Catskills for a weekend. It was one big family."

IBM's property tax payments undergirded government services throughout the area, and residents seized the advantage. Many communities adopted New York state's "homestead option," which allows different tax rates for commercial and residential property. IBM did not seem to mind being taxed at a higher rate, and the additional revenues helped pay for well-equipped schools and high salaries.

With its proven good treatment of employees and its reputation as a world business leader, IBM seemed unlike the old industrial behemoths that exploited many Rust Belt regions. So sacred was the Watson name in the Town of Poughkeepsie that when Tom, Sr., died, all public schools closed for the day.

But the annual revenue growth of IBM's mainframe business dropped gradually from 15 percent in the 1970s to 7 percent in the late 1980s. When that engine sputtered, everything in Dutchess County began cooling down, including the greenhouse atmosphere. From 1985 to 1992, "Big Blue" eliminated about 10,000 jobs in the region (and 140,000 elsewhere) through buyout offers and early retirements. Still, it had not managed to stanch massive losses, which soared to $5 billion in 1992.

John Akers, the chief executive from 1986 to 1993, continually promised a turnaround but issued restructuring orders that materialized only on paper. In the Mid-Hudson plants, the feeling grew that IBM had lost its sense of direction under Akers. Jack Toulan, who lives in East Fishkill, chose early retirement in 1991 after a 28-year career. In his last job as an advance planner, he forecast the kinds of programming systems that customers would need in the future. "At the beginning, I looked ahead three to five years," Toulan says. "But I noticed over my last few years that the window was shrinking. We started looking at the bottom line. By the time I left, we were focused on what we needed to do to make money next quarter."

By the end of 1992, the Mid-Hudson area was flooded with rumors that a more drastic cutback was inevitable. Bottom-rung IBM workers noticed a not-so-subtle movement of bosses and favored employees out of the threatened mainframe and chip-manufacturing plants and into IBM's still-thriving business sectors in places like Austin, Texas.

Finally, the IBM board replaced Akers in early 1993 with outsider Louis V. Gerstner, Jr., chief executive of RJR Nabisco. This time, IBM gave up all pretense of maintaining a no-layoff policy, and the world changed for thousands of workers who thought they had lifetime employment. A tottering IBM in 1993 cut its work force by 50,000, including the 7,700 surplusees in the Mid-Hudson Valley region. As the year drew to a close, only about 13,800 IBM jobs remained in the valley, a staggering 55 percent drop from 1985. In a 15-month period ending in September 1993, Dutchess and Ulster lost 35,000 jobs, according to Ann Davis, director of the Marist College Bureau of Economic Research in Poughkeepsie. She attributes the decline mostly to IBM "downsizings" and the spillover effect. Dutchess County, an affluent, middle- to upper-middle-class area, with a median household income of $42,250, was especially hard hit. Its unemployment rate rose to a seasonally unadjusted 8.5 percent in October, compared with 6.3 percent nationally.

Good Policies Gone Awry

The company had lived high off its near-monopoly for decades. It ignored growing trends away from its bread-and-butter business, mainframe computer systems, and toward small workstations. Carroll, a *Wall Street Journal* reporter who covered IBM, lays much of the blame for IBM's

downfall on a commercial mind-set that focused on building and selling mainframe computers to big corporate customers. In the early 1980s, IBM had great success with the desktop Personal Computer so popular that the acronym PC became the generic name for all desktop machines. But IBM's top-level management gave up the firm's huge lead in the PC market, allowing early PC partners like Microsoft Corp. to run away with critical parts of the new and growing business. As management expert Peter Drucker recently put it, IBM "slaughter[ed] tomorrow's opportunity on the altar of yesterday." In this respect it turned out to be no different from the old titans of the steel industry.

Nevertheless, the disaster at IBM was not caused entirely by the myopia of the mainframe enthusiasts in top-level management. Other things were going wrong.

One was the full-employment policy itself. Only a handful of American companies have made a serious effort to treat employees as assets worth protecting rather than as costly commodities. IBM tried harder and longer than most to keep that policy intact. Its experience, however, demonstrates a paradox inherent in employment security policies and no-layoff guarantees.

> *IBM turned out to be no different from the old titans of the steel industry.*

On the one hand, people secure in their jobs are much more likely than the layoff-prone to accept changes in workplace practices; even more, they initiate changes if they trust management and have a real voice in decisions. On the other hand, the promise of lifetime employment can act as a drag on the organization. "If you do your job," the policy said to employees, "there will always be a job for you." That seems to have been perverted by IBM's regimented, rule-making atmosphere into an ipso facto make-work policy: "If you think up a new procedure to check on the operation of other procedures, you will always have enough to do to keep your job."

Mike Cunningham recalls a customer who received a three-inch shoulder bolt without threads. It was one bad bolt in a lot of perhaps 100,000, but quality assurance people launched an investigation that took weeks. "They wanted to know who put it in the bag, who allowed it to go so far, how many defective parts we've shipped in 20 years. They made up charts and tested the sampling plans. How did it happen? The obvious answer was that one bad one got through, but someone was afraid to go up to management and say that. And despite all they did, the exposure of getting another shoulder bolt with no threads on it was as great as it was before."

The problems were exacerbated by other policies that, even though they were well intentioned, worked at cross-purposes. In Cunningham's 230-worker department, management conducted seminars on teamwork at the same time that it ranked employees on performance. "From one side of their mouth they were saying let's have teamwork. From the other side they said you were going to be ranked," Cunningham says. "Am I going to share a good idea with this whole group when another member might take it to the top and get ranked higher than me?"

Cunningham continues: "They used this term 'empowerment.' I called it 'directed empowerment.' It was, 'We'll tell you what to do and you're empowered to do it.' I had a hard time with that."

From all accounts, it was impossible to make quick decisions. All divisions and staffs that would be affected by a decision were asked to review the decision and concur or nonconcur.

But IBM's practice of measuring performance differently for each unit resulted in a deadlock over decision. "Many times," Toulan says, "we would fill a room with 20 or 30 people to talk about 30 problems. When everybody left, the 30 problems would still be on the table."

IBM also had an open-door policy under which employees could appeal complaints up to the chairman's office. The company tried hard to make the policy work, but lacking a neutral outsider to issue binding decisions in personnel disputes, management often leaned over backward to lend the perception of fairness. Toulan, who served as a manager for several years, says, "Managers were often regarded as the guilty party and had to prove their innocence. A lot of people who were there because of the full-employment policy weren't really doing work. But it was very hard to fire them."

Such stories diminish the myth of IBM as a forerunner of the postmodern corporation, with free-flowing work practices and highly motivated entrepreneurial workers. Full-employment policies are likely to work if they are combined with other practices that allow workers greater discretion on the job and that create flexible structures for judging employee performance. IBM may have followed such practices in some plants, but in the Mid-Hudson Valley, the corporate culture stressed narrow job definitions, strict rules, and close supervision.

'A Horrendous Smack in the Face'

The revelation that in the end IBM is no different from any other dominant employer has shattered the once-insular IBM culture. A Poughkeepsie educator who deals with former IBMers in adult education classes said, "Working for IBM made some of them think they are God's gift. There's an arrogance, and believe me I know, because my husband worked at IBM. Now, it's a horrendous smack in the face to realize they are a dime a dozen."

The Reverend Timothy Wu, pastor of the Mid-Hudson Chinese Church in Wappingers Falls, heads a 120-family congregation that consists almost entirely of Chinese immigrants from Taiwan and Hong Kong. Ninety percent of the family heads earned advanced degrees in the United States and went to work for IBM as engineers and programmers.

When the cuts first occurred, Wu's members were "panicked" because none had been exposed to the knockabout world outside IBM. "When IBM was good, IBM was like a god to them, and the system was closed. But now we see that life is more than just work, and more than just IBM. From a Christian perspective, it will be good for the whole community if we become more diversified and open to the world," Wu says.

"Nobody had any coping mechanisms in place," says the Reverend James Heron, pastor of Trinity Episcopal Church in the Village of Fishkill. Situated at "ground zero," about equidistant from the Poughkeepsie and East Fishkill plants, Heron's parish had lost 29 of 140 families in the congregation by mid-November. "As a parish priest with many IBM people," he says, "I had settled in with the feeling that that part of life [employment security] is taken care of. I dealt with all the other problems of life. It was the same with the county leaders. The whole county acted almost as if Daddy had abandoned them."

Jobless IBMers and their families were now experiencing problems that many thought existed only in ghettos: drunkenness, domestic violence, behavioral problems in schools, bouts of depression. The county Mental Hygiene Department reported a 10 percent increase in people asking for help even before the emotional holiday period.

By late fall, there were ominous foreshadowings of severe community budget problems. Facing a $6.5 million decrease in sales tax revenue, Dutchess County legislators voted to lay off about 20 county workers and raise property taxes. The Town of Poughkeepsie agreed to lower IBM's property assessment by $93 million, necessitating an increase in taxes on other commercial property. East Fishkill awaits IBM's next request for lowered property taxes. It could be in the neighborhood of $100 million. "We're looking at a potential 250 percent increase in town taxes at one shot," says county legislator Manning. "Many of our IBMers still don't fully grasp the nature of our problem." He worries about a severe

taxpayer backlash unless the county's economic development people, who are trying to lure jobs to the region, score "a big win" within 18 months.

Jobs Available—2,000 Miles Away

Is there substance behind the supposed magic of the "high-tech" label that will attract those jobs to Dutchess County? Local development agencies in the Rust Belt have largely failed to attract significant new business, and Dutchess may face the same problems. It will have to rely on more than its high-tech image. To some degree, the myth of the "flexible" high-tech worker still dulls an understanding of what is needed for renewal in the Mid-Hudson and other high-tech centers. The skills imparted to production workers in IBM "clean rooms" can no more be transferred without substantial retraining than were those learned in sooty open hearth shops.

By noon one day last October, about 35 job seekers had registered at a government-funded employment center in Poughkeepsie. They were an affluent lot, mostly men wearing expensive windbreakers, sport coats, a few in suits and ties, carrying file folders, clipboards, even briefcases. Engineers, programmers, computer technicians, mid-level managers, manufacturing workers—all former employees of IBM.

Occupying the entire fourth floor of a state office building, the Career Center provides "transition services" for laid-off workers: banks of phones to check out job leads, desktop computers and fax machines to prepare and send resumes, a library with labor market information, sign-up sheets for counseling and training. The place exudes quiet civility: courteous clerks and counselors, no standing in lines. There is a sense that finding a new job is just a matter of getting the right advice, using the right equipment, making the right connections.

But reality took over when the former IBMers bunched up at a bulletin board to scan lists of available jobs. Car wash attendant, waitress, companion, bartender, bus driver, cleaner, animal keeper, retail sales. A few professional and technical positions were open 2,000 miles away in Albuquerque, Austin, and Dallas.

For the first six months after the layoffs began in late March, a large outplacement firm retained by IBM operated three counseling and training centers in the Mid-Hudson. Meanwhile, local and state agencies obtained a $6 million grant from the U.S. Department of Labor and contracted with another private firm when the IBM funding ran out. The second firm, Employment & Training Institute (ETI), now operates the Career Center in Poughkeepsie and deals solely with about 3,000 victims of layoffs at IBM.

As of mid-November, about 900 workers had enrolled at the ETI center. Nearly 350 were taking skills training courses at local institutions, but one problem with these programs is that the trainees must provide their own living expenses—and that often restricts retraining to short courses in low- to mid-level skills with little value in the labor market.

Another 20 IBMers were working in on-the-job-training programs in which ETI reimburses an employer for 50 percent of a trainee's wages for four months. ETI also develops job leads and by mid-November had placed 30 workers. The center's job-lead bulletin board displayed a better selection of jobs than in early October, but more than half the posted jobs still offered entry-level wages in service occupations.

High-Tech, Low-Skill Workers

What happened in the Mid-Hudson Valley forces people to question a widespread belief about companies like IBM, which operate in a rarefied atmosphere, employing "knowledge workers." When such a company has to disgorge its self-starting, entrepreneurial employees, the belief went, they can either open up their own computer consultancies or turn their computer-factory skills to the use of other high-tech companies.

This idea, however, makes assumptions about the management style and work or-

ganization in a computer factory that may not be true. People can be organized to carry out this kind of work without absorbing technical knowledge. "The amount of knowledge reflected in a given product is not a clear guide to the amount of knowledge needed by individual workers to produce it," says Joel Rogers of the University of Wisconsin-Madison, who studies the sociology of work. "You can have very unskilled people put together very complex products."

Much computer manufacturing is automated, and merely assembling parts produced by this machinery is low-skill labor. But employees who work in cellular units, managing themselves, monitoring and operating computerized networks of manufacturing units, need a much higher order of technical and social skills.

It is not clear to what degree IBM follows the newer model in its Mid-Hudson Valley plants. An occupational breakdown of the surplused workers can give an indication. IBM has not released this data, but Ann Davis, the Marist College economist, provides some evidence. Of 6,300 workers laid off at the Poughkeepsie and East Fishkill plants, about 57 percent were classified as professional-technical and could fall into a high-skill, high-tech category. An additional 25 percent, however, about 1,500 workers, held production and minor administrative jobs with lower level skills that could not be fairly described as high-tech.

But, say the fans of high-tech work, even bottom-level workers in a computer factory are more computer-literate than most other workers. Not necessarily so in IBM's case, ironically. Many workers at the world's premier computer manufacturer knew nothing about computers except which key to punch to receive e-mail. When scores of surplused IBMers registered for adult education courses at local schools, they signed up for PC training—and they needed it.

"Ninety-five percent of these people didn't know what all the keys on a keyboard are for," says Mike Cunningham's wife, Christina, who teaches computer courses part-time at Marist and two community colleges. "They had no idea how a computer worked. They didn't understand how information is stored, or what the diskettes are for and how to put them in and take them out." At IBM, many employees

> *Jobless IBMers and their families were experiencing problems that many thought existed only in ghettos.*

worked on desktop terminals linked to a mainframe and knew nothing about PCs. The same is true in many large corporations, but IBM is *the* computer company. The computer-illiterate included engineers, managers, secretaries, receptionists, as well as manufacturing-line workers.

Still, the idea of starting a computer business remains in vogue. A training firm retained by IBM held workshops on "entrepreneurialism." People, of course, should not be belittled for following a dream, but the demand for "computer consultants" does not expand with the number of people surplused by IBM. Jack Toulan has run a small programming business since retiring from IBM in 1991 but says he found a market for his services by pure luck. He knows many IBM retirees who started consultancies and gave up for lack of business.

Piecemeal Plans for Revival

Local officials, however, continue to cling to the hope that all these unemployed computer workers will attract other high-tech businesses to the area. In Dutchess County, private business has pledged a total of nearly $1 million to help finance a three-legged effort directed by the county's Economic Development Corp. The goal is to fill 4.5 million square feet of unused "industrial" space, including 2.4 million owned or leased by IBM.

One part of Dutchess County's "external

marketing" strategy is to find occupants for some 30 general purpose buildings scattered around the county. A second part of the strategy, still in the planning stages, entails the building of a major industrial and business park alongside I-84 in southern Dutchess. A third step, already under way, centers on helping IBM lease vacant sections of its East Fishkill complex to other high-tech firms.

Dutchess County is hardly the first economically depressed region to try to sell itself as a "high-tech mecca," a term used by its promoters. Its most immediate raiding targets—industrial areas of Westchester County, the Bronx, Queens, Nassau/Suffolk, and Long Island—are also competing for high-tech industry. And Dutchess is only one of seven counties that make up a large industrial region in New York, New Jersey, and Connecticut with a total of 150 million square feet of empty factory area.

Yet, as the Dutchess strategists candidly point out, upwards of 50,000 or more "highly skilled technical workers" in the Northeast either have been or will be laid off by such well-known firms as Digital Equipment, Grumman, Eastman Kodak, Wang, Pratt & Whitney, and others. IBM's surplusees become part of that army of the unemployed, and the Mid-Hudson region now enters the cutthroat, tax-inducement competition for jobs.

Dutchess, however, does have some advantages, including the IBM physical assets, because industries tend to cluster around high-tech research. It is near New York City with two commuter rail lines and an excellent highway system, and lower housing prices already are luring people from the metropolitan area, as families from Westchester and the Bronx move north for better schools.

Ann Davis points to another potentially important resource, the 500 to 1,000 small, high-tech manufacturing companies in the valley. These firms, Davis says, could provide a strong incubating base for future growth if pulled together into a regional master plan. Three nearby colleges—Columbia, Syracuse, and Rensselaer Polytechnic—could provide technical research through computer links.

Although some organizations in the Mid-Hudson Valley are working to consolidate these resources, regional development is just getting started. There is no national effort to boost regional development and job growth in depressed regions. So Dutchess and Ulster counties are trying to lure jobs and businesses immediately from other areas. The Mid-Hudson Valley now joins many other regions in the Rust Belt and even California in trying to outbid each other in wooing corporations, much as southern states are doing in the hunt for German manufacturing plants. One state's gain will continue to be another's loss.

Whatever Dutchess County's job-luring potential is, the results will be realized too late to help people in the short term. As 1993 came to an end, Mike Cunningham faced unpleasant prospects.

He landed a job at a Veterans Administration hospital last summer after four months of looking. Working as a biomedical technician, Cunningham earned about $13 an hour, some $4 lower than his IBM pay rate. But he enjoyed helping disabled patients with prosthetics more than anything he had done at IBM. He had more discretion on the job, more freedom to follow his instincts. He was prepared to make this a new career. In September, however, cuts in the VA's staff nationwide forced Cunningham back into unemployment. Shortly after starting another job search in October, he suffered severe chest pains and had to undergo open heart surgery. He is recovering, but he will not be able to actively look for work for three or four months.

Broken Social Contract

In *Big Blues*, Paul Carroll notes that IBM's reduction in force by the end of 1992 had cost 140,000 jobs and disrupted the lives of 400,000 people, including family members. The number has risen since then. That such carnage could occur at a company only recently held up as the paradigm of high

technology is a warning that the "invisible hand" can write epitaphs anywhere. It makes no distinction between Rust Belt and high-tech industries, private and government sectors, blue chip corporations and barely solvent entrepreneurs, or blue-collar and white-collar workers.

In Dutchess County, a sense of outrage lies not far below the surface of an outwardly calm but deeply hurt community. The wife of a former high-level IBM manager expresses it this way: "The company broke a social contract with these people. It said, 'Don't think, just do what we tell you, suppress your individuality and play our game, and you will always have a job.' Then it screwed them. I understand the economics of why they did that, but if you make a social contract, you can't violate it."

The term "social contract" has as many meanings as there are people who use it. But, clearly, Americans feel that something like the Poughkeepsie woman's version of a social contract exists, or should exist, between people and employers, and ultimately between people and the state (which is closer to Rousseau's original concept) as represented in the economic system. The employer and the economy provide security in return for commitment. But what constitutes economic security is changing with economic conditions.

The IBM story gives the lie to several fashionable views about high technology, competitiveness, and employment. For IBM epitomizes all the features that were supposed to give Americans a degree of job security in the new high-tech economy. If employment at IBM is not secure, no employment is secure.

As the IBM saga so vividly shows, IBM's benign paternalism was built on the sands of temporary monopoly. Today shifts in technology are accelerating. Market leadership based on the sort of monopoly that IBM once had in mainframes will become both rarer and shorter lived. And with that shift, an entire source of job security is in jeopardy. It's not much of a trick to be a benign employer when your market is locked up and profitability is assured. It's all but impossible to guarantee job security in one company when next year's market is up for grabs.

There are only two sorts of insurance against the kind of bloodletting IBM brought to Dutchess County. Either companies have to become better managed so that no company suffers the kind of competitive free-fall IBM experienced. Or society has to devise mechanisms to separate employment security from job security.

One check on management shortsightedness is the sort of employee empowerment that IBM advertised but did not always practice. Employees in some high-tech companies may have a louder voice than in traditional industries, but this rarely extends to corporate strategic planning. As long as the corporation is less than perfectly accountable either to shareholders or to employees, then managements will invariably make mistakes, occasionally fatal ones.

If employment security in one company is impossible, it must be guaranteed by society. The breakup of the New Deal system with its large, stable companies means that few Americans can count on a lifetime of employment in a single firm. Whatever replaces the New Deal system must find a way to provide reasonable employment security—a lifetime of employment in perhaps many firms, offering retraining and reskilling, yet anchored by a macroeconomic context of full employment.

The passage of national health insurance, as President Clinton recently said, will be part of a new concept of linking change to security, so that "if you don't have job security, you at least have employment security." The question is whether he will push as hard for the other necessary prerequisites of employment security: massive training and retraining programs, portable pensions, a reformed labor law that guarantees in practice the freedom of association for workers that was promised by law 60 years ago, and—most of all—a cornucopia of well-paid, skilled jobs.❖

A Few Good Men

Overcoming the Barriers to Involved Fatherhood

Kathleen Gerson

Successful revolutions, by their nature, can never remain confined to one social group. For the last 30 years, as women of all ages and family statuses have streamed into the workplace, rearranging the balance of their ties to employment and child rearing, men have been experiencing a quiet revolution of their own. While men who provide the sole or major economic support to their families have not disappeared, their ranks have dwindled. Even generous estimates suggest that no more than a third of American households now depend solely or primarily on a male earner.

Today men are facing new expectations and new choices about their commitments to society, family, and work. No longer certain what goals they should pursue, much less how they should pursue them, many men have found themselves in a no-man's land, searching for new meanings and definitions of maturity. Amid these social upheavals, some men have held steadfastly to traditional definitions of manhood while others have sought greater autonomy and freedom from family commitments, a pattern that social critic Barbara Ehrenreich has called the male "flight from commitment." In interviews I conducted with 138 men from diverse social and economic backgrounds, 36 percent defined their family and work commitments in terms of primary breadwinning, and 30 percent chose to eschew parenthood or to avoid involvement with children they had brought into the world.

However, about 33 percent had moved toward more rather than less family involvement over the course of their lives. These men developed an outlook on parenthood that included caretaking as well as economic support. They represent a growing group of fathers, most of whom are married to work-committed women and have an egalitarian approach toward marriage and family commitments, who are changing diapers, pushing strollers, cuddling their children, and generally sharing in the pleasures and burdens of child rearing. Such men, whom I call "involved fathers," are demonstrating a capacity, a willingness, and an enthusiasm for parenting not seen in their fathers' and grandfathers' generations.

An involved father, however, is not necessarily an equal father. Though men's domestic participation has increased in recent years, this involvement has not kept

Adapted from *No Man's Land: Men's Changing Commitments to Family and Work* by Kathleen Gerson. Copyright (c) 1993 by Basic Books. Published by arrangement with Basic Books, a division of HarperCollins Publishers Inc.

pace with women's rapidly rising commitment to paid employment. A persistent "housework gap" has left most women with more work and less leisure time than their male counterparts. According to some estimates, women average two to three fewer hours of leisure per day than do married men. When the time spent performing paid work, housework, and child care is added together, men work an average of 88 fewer hours a year than do women.

Why do only some become involved fathers, men who participate in domestic and childrearing duties but still see themselves as "mothers' helpers" rather than as full partners? Why do even fewer become equal partners, men who share in family duties and responsibilities fully and without reservation? In my interviews with these men, I discovered that the convergence of forces that led them toward a more equal sharing of breadwinning and caretaking was not obvious to them. Rather, they generally perceived this unexpected outcome as a matter of chance. Yet although the outcome may not have been planned, the process was not random. It resulted from an array of labor market and interpersonal experiences, a combination of constraints and opportunities, that converged in different ways for men who made other choices.

It may be tempting to focus on the fact that, even among men who support equality, their involvement as fathers remains a far distance from what most women want and most children need. Yet it is also important to acknowledge how far and how fast many men have moved toward a pattern that not long ago virtually all men considered anathema. One recent survey found that 73 percent of a group of randomly selected fathers agreed strongly that "their families are the most important facet of their lives"; 87 percent agreed that "dad is as vital as mom in raising kids." The challenge is to create the social and cultural arrangements that would enable men to uphold these beliefs more easily.

Turning Toward Family Involvement

Like most of the men who shared their life histories with me, involved fathers had once expected to become either primary breadwinners or to remain single and childless. Since the culture of their childhood stressed the virtues of breadwinning and the pleasures of bachelorhood, it is not surprising that these men did not aspire to a nurturing vision of manhood. But they were pushed by personal events toward the decision to share the burdens and joys of child rearing.

At home, involved fathers became committed to a nondomestic woman and developed an egalitarian outlook toward domestic and child-rearing duties. At work, involved fathers were pushed and pulled toward either intrinsically satisfying or less demanding work, even at the expense of lower pay and prestige. While those with college degrees had the luxury of searching for personally fulfilling work, men without degrees were more likely to become enmeshed in jobs that disappointed.

Among college graduates who became oriented toward family involvement, 58 percent ultimately chose careers that stressed intrinsic job characteristics, such as service to society and personal satisfaction, over extrinsic rewards, such as money and prestige. An additional 23 percent turned away from demanding, high-pressure careers in search of a looser commitment to work. In both instances, these men became disillusioned with traditional male professions and attracted to less lucrative but more gratifying lines of work.

Most found that the traditional, profit-oriented professions, whatever their advantages, provided a poor fit for their particular talents. This happened to Rick, a high school teacher who had once considered a legal career:

> I thought I'd be a lawyer. I knew a number of lawyers and was appointed to be a page in the state assembly. . . . I found it not to be my cup of tea at all. Most of that work was really boring. I didn't like that type of thinking. . . . So I just very rationally said, "Forget that."

Others veered away from the fast track because they refused to make the moral and lifestyle compromises many high-powered careers demand. Ernie, a physical therapist, resigned from a managerial position in a large private firm when he discovered his job was damaging his family relationships:

> I was working from six-thirty in the morning to seven at night without breaks. I wasn't eating. I was irritable. I couldn't deal with anybody. . . . The job took control of me. I was possessed. I didn't feel patient with my daughter anymore. It was taking a big toll on me, and I didn't like it at all. I decided it wasn't worth it and the only way to stop it was to leave.

A sense of having options, even if they involved trade-offs, made it easier for college-educated men to absorb the economic and social sacrifices their choices entailed. Only 19 percent of this group felt blocked in their careers or expressed disappointment with their occupational paths. Men without college degrees, however, were more likely to encounter workplace roadblocks that they could not overcome or escape. Thus 82 percent of those in working-class jobs who moved toward involved fatherhood experienced downward or blocked mobility and general disappointment at the workplace.

Most of these men had chosen work they expected to find fulfilling, but being stuck on a low rung produced alienation from work itself. Harvey, an off-track-betting clerk, decided it was "too late" to leave by the time he realized he had hit a dead end:

> I had expectations for the job, that it was going to lead somewhere, and I got sold a bill of goods. I trained two people that are managers today, and I'm still just a clerk.

Despite their discontent, these men

became captives of job security, pensions, and health plans. As Lloyd, a sewage worker, told me, "You can't help but not be satisfied. But where could I go? I'd love to do something else, but how can I turn away from that kind of money?"

Unsuccessful attempts to enter or stay in preferred occupations forced some to settle for less. Bureaucratic politics, rigid seniority systems, and a lack of credentials dashed the hopes of others. Whatever the route, hitting a dead end at work undermined an earlier belief that merit and hard work would be recognized and rewarded, which in turn engendered declining aspirations and rising estrangement from paid work.

As these men looked for commitments beyond the workplace and became involved with women who desired and expected help in child rearing, they found unexpected pleasure in parenting. Spending time with their children became as important to them as contributing money. Becoming an involved father, however, meant trading some historically male advantages for the chance to ease some historically male burdens. As Carl, a utilities worker, explains:

> Work's a necessity, but the things that really matter are spending time with my family. If I didn't have a family, I don't know what I would have turned to.... I look at my daughter and think, "My family is everything."

Indeed, it is a man's participation in caring for his children, not the shared breadwinning that typically accompanies it, that determines whether a man is an involved father. The type and degree of activity varied greatly among the involved fathers, but they all emphasized sharing and flexibility in parenting and domestic tasks. Lou, a sewage worker and father of a young girl, and Theodore, a planner who is married but not yet a father, sound remarkably similar despite differences in class and life stage:

> Patricia and I know how the other works. If one of us has a bad day, the other person will pick up the slack. If it's getting Hannah ready, teaching her writing, spelling, or such, it's whoever is in a better frame of mind that day that handles it. We feed off each other's vibes. If we both have bad days, then whoever had the better day takes care of her.

> One thing I learned: you can't take domestic jobs and say, "You do this, and I do that .... I think the same way with children. It's not going to be, "You're the one who changes the diapers while I burp the child." You do it together. If she's too tired, then I'll do it; and if I'm too tired, then she'll do it.

Autonomous men could make work choices without taking the economic needs of children into account. Primary breadwinners faced pressure to maximize their economic contribution, but they could also make choices about work without concern for spending time at home. Men who wished to care for their children, however, faced hard choices between freedom and commitment, career and parenthood, time spent with children, and time spent making money or pursuing leisure. In the past, such trade-offs appeared to be the dilemma of employed mothers; today they confront any adult who tries to be both a committed parent and a committed worker.

First, involved fathers felt torn between an ideal of good parenting that stresses providing emotional sustenance and one that stresses providing economic support. Michael, a therapist, had become the custodial parent of his adolescent son and daughter after a divorce. He worried about how to meet both his emotional and economic obligations:

> It's tough to maintain a standard of living in today's world—to live in a nice place and be able to send your kids to college or take vacations. And nobody pays you for doing nothing. They don't pay you unless you bust your neck. So it's difficult for me to make a choice, to

> spend the time I think I should with them. It makes the choices complicated, because you frequently are in situations where you're damned if you do and damned if you don't.

A second dilemma for involved fathers revolves around the contrasting demands of nurturing a family and nurturing a career. Unlike the previous problem, this one concerns how these men can meet their own needs as well as their children's. Ernie, the physical therapist, explained how:

> You always feel like you have to make a choice between a career versus family, and that's so unfair. I want a higher position where I can grow and be financially okay, but I don't want to have to travel or be away on weekends. I don't want to sacrifice time with my family; it isn't worth it.

Third, even in the absence of a perceived conflict between family and career, involved fathers faced trade-offs between freedom and commitment, privilege and participation, the ability to pursue personal interests and the demands of family involvement. Neil, a graduate student, anticipated that he would have to sacrifice many treasured leisure activities when he became a father:

> I think I can balance my career and a child, but it's the other personal things that will obviously suffer—leisure time, political activity. That's definitely starting to concern me.

Involved fathers felt these conflicts more acutely than other men precisely because they defined "good fathering" in terms of active involvement. Flexible about what they would do, their commitment not to rule anything out did not necessarily include a commitment to rule everything explicitly in. The stress on fluid, interchangeable responsibilities left unresolved the question of how much time they would commit and how much responsibility they would assume. They could use this vagueness to avoid certain tasks. Indeed, most were able to limit or pass on some of the costs of child rearing.

One way to limit the demands of parenthood and still play a significant role in child rearing is to keep the family small. Many involved fathers pushed for this, sometimes amid a wife's ambivalence. In addition, most (over three-fourths) of these households relied on paid or unpaid help from an additional caretaker. Involved fathers knew this help was essential for their own well-being, but they tended to view paid baby-sitters, housekeepers, and even relatives as substitutes for their wives (or, in some cases, ex-wives) and not for themselves. Since even the most involved fathers did not consider their responsibilities at work to be negotiable, the wife's decision to remain employed (or her absence from the home altogether) triggered the search for a "substitute mother." Frank, a bank vice president, pointed out how he "helped" his wife, a public relations officer, in caring for their young daughter:

> My participation is very extensive. I thoroughly enjoy my daughter's company. I regularly take her out on my own to allow Sharon time without the interruptions of a young child. And when she has got to go out of town on business—often for as much as a week or ten days at a time—I'm perfectly capable of stepping into her shoes.

Some fathers, however, became genuinely equal—and, in rare cases, primary—parents. Nearly 40 percent of involved fathers (or 13 percent of my entire sample) went beyond being mothers' helpers, reflecting a limited but growing trend. Although it is not possible to know exactly what proportion of couples share equally, even conservative estimates suggest that it is on the rise. In her study of dual-earning couples, for example, Arlie Hochschild found that about 20 percent shared what she called the "second shift" equally.

While involved fathers faced trade-offs that other men do not, the degree and con-

sequently the price of parental involvement varies. Why and how did some men become equal, or even primary, parents, while most remained mothers' helpers? As we shall see, most mothers' helpers faced social, economic, and ideological barriers that suppress equality and lacked the necessary social conditions that foster equal or primary parenting in men.

Resisting Full Equality: The Strategies of Mothers' Helpers

Many men still consider themselves mothers' helpers—secondary caregivers. Mothers' helpers devoted much time and energy to their children, but they avoided those activities that they deemed least attractive. Although Howard, a financial manager, spent his evenings and weekends sharing child care with his employed wife, he let himself off the hook when it came to certain responsibilities:

> I wouldn't say either of us expends ourselves greater in time or emotion. We have a baby-sitter who comes in full-time, but when she's not there maybe Marcia does a little bit more physically. She'll probably get up at night more than I will. I sleep heavier. I don't even hear the baby, and she's up in a snap, and I won't even know it in the morning.

What is deemed fun and what is deemed work is, of course, subjective. But the option to choose between desirable and undesirable tasks, which their wives did not possess, allowed most of these mothers' helpers to pass to someone else much of what they preferred not to do.

When they did share child care equally, these men did not share housework in the same way. As Charles, a lawyer married to a professor, put it:

> It's much more equal in what I do with Pete than in the house. I enjoy looking after him; it's more fun than washing dishes or even than putting them in the dishwasher, which I'm still not very good at. I'm lazy about housework and stuff like that, and Rachel is compulsive enough that if it doesn't get done, she'll do it. And I take advantage of that.

The pattern of men's avoiding housework while participating in child care appears to be widespread. In one study, men's share of child care was shown to be substantially higher than their share of housework. Another found that women do 70 percent of the housework in dual-earner families (with no significant differences between classes).

Mothers' helpers were also reluctant to take responsibility even though they participated. Dean, a driver for the park service, conceded that despite his extensive involvement in domestic work, he relied on his wife to assign the tasks: "Joan does a little more of the housework. We never actually sat down and said who should do what, but if she asks me to do something, I'll pretty much gladly do it."

Warren, an engineer, relied on his employed wife to make last-minute arrangements during unexpected emergencies, even when caused by his job:

> Sometimes, like if I get stuck working overtime, she'll have to make arrangements for getting a baby-sitter. She always complains to me that I'm working the overtime and she gets stuck finding the baby-sitter because she has to go to work that night. So the pressure is put on her.

The husband who remained a helper placed limits on his wife's ability to secure equality. Ultimately, he decided if and when to participate, knowing that she would make up for his absence. The struggle to secure domestic equality became her job, not his. While few of these men denied that their partners bore the larger share of family responsibilities, they attributed the gap to situational pressures more than personal preferences.

Because a man's participation emerges from fragile social contexts rather than an "inherent" ability or desire, he may become

an equal father in one situation and a mother's helper, a breadwinner, or even an estranged father in another. If some fathers did become equal participants in child rearing, it is because they faced stronger incentives and met fewer obstacles than others.

Beyond Helping: What Leads to Equal Parenting?

If most involved fathers resisted equal participation, a substantial minority did not. These "equal parents" shared what mothers' helpers eschewed. Ernie shared responsibility for making arrangements for the care of his young daughter:

> I wanted to be there for the good times and the bad times. I wanted to share in making decisions, which was good for my wife, too. I don't want her to decide on a nursery school; let's decide together. ... How can I say I want children and not take that kind of responsibility?

Equal fathers also shared the "dirty work" of child care and housework. Lloyd, had three children and drew few boundaries in dividing daily tasks with his wife, a chiropractor:

> We've always shared breadwinning and caretaking right down the middle. That's from washing the floor, changing diapers, washing clothes, cleaning the house. I don't draw any lines as to what is men's work and women's work; work is work.

In rare but significant cases, a father's contribution exceeded his partner's. Rick, the teacher, assumed the lion's share of caretaking when his wife, a librarian, returned to a more highly structured, nine-to-five job shortly after the birth of their first daughter:

> For those first five years, I got the kids dressed and fed and everything. I always got up in the night with the first one. Always. It was 99 percent me with the older one. With the second one, it was shared. We have experimented and continued to do so—not really much thinking of it as an experiment anymore.

By rejecting the path of least resistance, these men illuminate the unusual circumstances that allow and promote equality and even primary parenting for men. They also underscore what deters most involved fathers from choosing full equality even when they might wish to do so.

When Mothers Are More Committed Than Fathers to Work. Among most dual-earner couples, men enjoy higher earnings, better prospects for occupational mobility, and a wider range of career opportunities than do women. Most fathers thus believe their employment should and must take precedence over their partners'. They also conclude that it is both practical and fair to rely on their wives or partners as primary caretakers. For most dual-earning parents, including men who became mothers' helpers, inequality in career and economic opportunities constricts the options of both parents, dampens a father's incentive to become an equal parent, and provides a justification for domestic inequality. Indeed, many economists, especially those who employ a "human capital" perspective, use precisely this argument to explain domestic inequality. They argue not only that income inequality makes domestic inequality a rational choice but that economic inequality arises from differences in men's and women's tastes or preferences. This perspective assumes that men prefer to maximize their earnings while women prefer to balance domestic and paid work.

In reality, economic and occupational opportunities are far more rigidly divided by gender than are the tastes and preferences of individual men and women. Not only do a large and growing proportion of women wish to enhance their economic and occupational chances by developing their "human capital," but a significant proportion of men would clearly prefer to work less if they could. Those men whose tastes do not place unquestioned pre-eminence on paid work still face severe

constraints on "choosing" to focus less on work and more on domestic pursuits. Although social incentives and constraints tend to push men out of the home and leave women responsible for it, both groups face conflicts between the demands of employers and the noneconomic needs of their families.

In spite of the general pattern of occupational inequality, cases in which a woman finds equal or better career opportunities than her partner's are becoming more widespread. The Census Bureau reports that the number of wives who earn more than their husbands increased from 4.1 million in 1981 to 5.3 million in 1987. The ratio of wives' mean earnings to husbands' mean earnings also increased during those years, from 0.41 to 0.45.

When a man's partner becomes more committed to a career than he does, neither parental equality nor a reversal of parental duties is assured. Social and ideological pressures to conform to a different pattern make equal parenting an unusual outcome even in conducive circumstances. Nevertheless, I found that in those rare instances when a reversal of occupational trajectories did occur among parents, a more equal arrangement became more likely. There is good reason to believe this dynamic occurs across a broad spectrum of couples. One study found, for example, that when a woman's career commitment is high, her share of domestic labor drops substantially. A comparison of nonemployed wives with those who worked 50 hours a week and earned at least $25,000 a year showed that the employed women's share of domestic labor dropped from 75 percent to 56 percent as their husbands and children took on more. While just being employed may not make much difference for married women's domestic burden, full-time employment in better paying jobs clearly does.

But the calculus of decision making involves more than money. I found that the relative degree of work commitment and satisfaction between parents was more decisive than strict economic accounting. Thus the percentage of equal fathers and mothers' helpers who earned about the same as their partners is roughly equal (44 percent to 38 percent), but equal fathers were more likely to be involved with a woman who faced better long-term career prospects (28 percent compared with only 7 percent for mothers' helpers). When a father's dissatisfaction with work combined with a mother's growing commitment to it, their job trajectories converged to make equality or primary parenting by a man more attractive—certainly not guaranteed, but more likely.

When Fathers Take Advantage of Flexible Work. Lack of job flexibility provides a genuine reason as well as a justification for unequal participation. Whatever their desires, most fathers are constrained by rigid work schedules, which make equal parenting less attractive, easier to avoid, and often out of the question. In a recent Census study of child-care arrangements for dual-earning couples with children under five, when both parents worked during the day, only 4 percent of mothers reported that their husbands were the primary caretakers when they were at work. When both parents worked at night, however, 31 percent relied on their husbands as primary caretakers. When the father worked during the day and the mother worked at night, 32 percent relied on their husbands. And when the mother worked during the day and the father worked at night, 18 percent relied on their husbands. Caretaking by fathers is thus more likely to occur when at least one parent works an unconventional shift.

Without the motivation to become more involved with his children, a father's job flexibility bears little relation to his parenting. But I found that the proper motivation enhanced the chances that an involved father would use a flexible work schedule to become an equal parent. This was especially so when his partner's work schedule was more rigid. For Rick, the teacher, shorter hours at the workplace and summers off allowed him more family time

than his wife, a librarian, could muster. For many years he was the primary parent; now that the children are in school, he and his wife share child care "about equally."

For some, flexible work schedules had the unintended consequence of promoting equality or primary caretaking by a man. Others consciously chose to reject a nine-to-five schedule so that they could be more involved. Todd, a construction worker, opted for the evening shift so that he could spend his days with his newborn daughter while his wife pursued her dancing career:

> I take care of her in the morning and until I have to leave for work. I wake up with the morning ahead of me, and that's important with a little one. Even if I'm pretty tired when I get up, all I have to do is look at that little face, and I feel good.

Flexible work schedules could exact costs. They sometimes came at the expense of other work rewards, such as opportunities for advancement and a higher income. Equal fathers were willing to pay this price in order to spend more time with their children. In these cases, flexible work provided the opportunity for equal parenting, but as we shall see, more subtle psychological incentives allowed and encouraged men to take advantage of it.

When Fathers Don't Have a Woman to Rely On. Although divorce typically separates fathers from their children, fathers can become more involved if they retain joint or sole custody. Of course, men seek custody precisely because they wish to participate in rearing their children. Nevertheless, retaining custody can have unintended as well as planned consequences.

Both one-parent families headed by men and joint-custody divorces remain rare, but the size of both groups is growing. The percentage of male custodial households has grown from 1.9 percent in 1970 to 3.1 percent in 1989. The number of divorces that produce joint-custody arrangements is harder to ascertain, but it is clearly growing at a much faster pace than male custody alone. The number of divorced fathers in my study is small (only 14), but 43 percent of them retained joint or sole physical custody, albeit not always legally.

Whatever the path, retaining some form of custody held unforeseen consequences for fathers who, though involved, were formerly able to rely on a woman to do a large share of the parental work. Divorce shattered some men's belief that a woman would always be there.

The loss of a female partner may also have more felicitous consequences. It forced once-complacent fathers to confront the previously unnoticed tasks of child rearing. Fathers who did not have a woman to rely on had little choice but to develop what some call "maternal thinking." These divorced men came to realize how much their freedom and independence had depended on their former wives' presence. They learned what their ex-wives already knew: involved parenting requires personal sacrifices. Like other equal fathers, custodial fathers were likely to search for less demanding and more flexible jobs. Roger, a businessman and divorced, custodial father of two, found himself making unexpected work sacrifices to accommodate his new job as a primary parent:

> The boys remained with me from the beginning, and I needed stability. I couldn't start a new job and rearrange my home schedule, so I stayed. I was making enough money, the hours fit, and it was convenient. I could be home at five-fifteen, have dinner on the table by six-fifteen. I was bored, but it was convenient for what else I was dealing with at the time. It's a seesaw. You've got to keep things balanced.

Coping with the Costs of Equality

Equal fathers are rare because it takes rare circumstances for them to emerge. The men I interviewed became equal parents only as a last resort when other alternatives were unavailable, unacceptable, or too costly. When a father's occupational prospects

were dimmer than his wife's, when his job was more flexible or less demanding than hers, or when a wife was absent altogether, an involved father moved beyond helping to sharing equally or becoming the predominant parent. It took these unusual opportunities and constraints on both parents to overcome the heavy social and ideological barriers to equal participation. Since social arrangements make equal parenting both unlikely and difficult, "male mothering" emerged only when it became easier to choose it than to avoid it. When this happened, men developed parenting skills and attachments that rival those more often imputed to women. Indeed, when the opportunity arose, these men became "mothers" with apparent ease.

Just as equal and primary fathers acted and thought like caretaking mothers, they faced similar conflicts. While mothers' helpers strove to justify the inequality that remained after their participation was taken into account, equal and primary fathers had to cope with the difficulties of juggling heavy work and family demands. The similarities between equal fathers and work-committed mothers are unmistakable. While most men may not trade off between family and work as women do, those men who face similar constraints are likely to make choices in similar ways. Michael, for example, worried about the toll his working took on his children:

> Probably the thing I dislike the most has to do with my being hard on myself for being so career-oriented. I am very ambitious, and it's a conflict that's still unresolved.

Equal fathers also worried about the personal costs of their choices. Like employed mothers, they could feel overwhelmed by the magnitude of all they had to do. Michael continued:

> When I tell friends what I do, they say, "Oh my God, you poor guy. You must be overwhelmed." And it's true. Sometimes I feel that way.

To cope with the conflicts and the costs of their choices, fathers who became equal or primary parents focused on the benefits and discounted the costs to themselves and their children. They emphasized such personal rewards as a greater sense of domestic control, the intrinsic pleasure of being close to their children, and even the advantages of receiving credit for a job well done. Like employed mothers who struggle to be "superwomen," equal fathers tried to be "superdads" who could juggle the demands of full-time work and parenting. Their sacrifices, moreover, were rarely noticed or applauded, as Rick learned:

> There was one time when one of these doyens of the junior league was sitting in her shop, and I walked in with the two kids. And she said, "Oh, I have seen you at the school many times. I always thought you were a nonworking parent, that you stayed home." At the time, I was furious because I was holding down a job and taking care of the kids and writing a dissertation, and she thought I just hung around the playground all the time.

Given that equal fathers perform a juggling act with as few social supports as employed mothers possess, it is hardly surprising that so few men choose equality. Most involved fathers concluded that being a mother's helper holds fewer drawbacks and offers enough rewards to make it the more attractive option.

Suppressing Fatherhood: Social and Ideological Obstacles to Equality

Given the right conditions, many men would forgo traditional jobs in favor of more control over the conditions of work and the ability to spend less time at it. For involved fathers, more flexibility and control meant more time for family life, not just more time for leisure. The right conditions rarely obtain for those who would choose to spend less time at work and more with their families, however. The obstacles that constrain men's domestic participation not only make parental equality an elusive op-

tion; they also perpetuate the belief that all men prefer it that way. Fathers and would-be fathers rarely enjoy the option to withdraw from paid work, even temporarily, to care for a child. Although full-time domesticity has declined as an option for women, it has not emerged as an option for men. Involved fathers were keenly aware that others frowned on the choice not to pursue a career. Carlos, a social worker, imagined the disapproval he would face if he quit working:

> Personally, if I had an independent source of money and didn't have to work, I would enjoy it. But at the same time, a lot of people associate who they are through their jobs. When I wasn't working and met other people, it seemed very difficult to tell people who you were if you couldn't talk about what type of work you did.

Even more important than social disapproval, however, are personal circumstances that put domesticity or part-time work out of reach. The systematic depression of women's earnings and the gender gap between men's and women's incomes make it impractical and, indeed, impossible for most men to consider staying home while their wives go to work. Even if social change has made switching places more ideologically palatable, the persistence of economic inequality renders it a largely hypothetical option.

Economic inequalities between women and men underlie and reinforce cultural measures of manhood that stress work and earnings over parental dedication. However devoted, few fathers have the option to give their undivided attention to their children. Choosing domesticity requires extraordinary economic circumstances and the strength to resist prevailing ideologies.

Social disapproval and economic inequality put full-time domesticity out of reach for almost all men. Yet most of the involved fathers also discovered that economic necessity and employer intransigence make anything less than full-time work an equally distant possibility. Few employers offered the option of part-time work, especially in male-dominated fields. Yet even if part-time work were available, involved fathers still needed the earnings that only full-time and overtime work can offer. Lou, the sewage worker who worked the night shift in order to spend days with his young daughter, could not accept lower wages or fewer benefits:

> If I knew that financially everything would be set, I'd stay home. I'd like to stay more with my daughter. It's a lot of fun to be with a very nice three-year-old girl. But if I work less, I would equate it to less money and then I wouldn't be taking care of my family. If it meant less work and the same or more money, I'd say, "Sure!" I'd be dumb if I didn't.

Since involved fathers tried to nurture as well as support their children, they made an especially hard choice between money and time. Like many mothers, they had to add caretaking onto full-time workplace obligations. Yet employers are generally reluctant to recognize male (or female) parental responsibility as a legitimate right or need. Worse yet, paternal leaves are rarely considered an appropriate option for men even if they formally exist. Involved fathers wished to take time off for parenting, but like most men they were reluctant to do so for fear of imperiling their careers. And even though most employers allow health-related leaves with impunity, they have not been so flexible when it comes to the job of parenting. Workers receive the message that illness is unavoidable, but parenting is voluntary—an indication of a lack of job commitment. Our current corporate culture thus makes parenting hazardous to anyone's career, and choosing a "daddy track" can be just as dangerous as the much-publicized "mommy track."

Domestic arrangements also impede full equality. Child rearing remains an undervalued, isolating, and largely invisible accomplishment for all parents. This has fueled women's flight from domesticity

and also dampened men's motivation to choose it. Child rearing can be invisible as well as undervalued. Unlike the size of a paycheck or the title one holds at work, there are few socially recognized rewards for the time a parent devotes to raising a child or the results it produces. This made only the most dedicated willing to consider full-time parenting.

The forces pulling women out of the home are stronger than the forces pulling men into it. Since the social value of public pursuits outstrips the power and prestige of private ones, men are likely to resist full-time domesticity even as women move toward full-time employment. This process is similar to the one pulling women into male-dominated occupations while leaving men less inclined to enter female-dominated ones. In addition, just as women in male-dominated occupations face prejudice and discrimination, fathers who become equal or primary parents are stigmatized—treated as "tokens" in a female-dominated world.

In the face of such disincentives, most involved fathers rejected staying home for the same reasons many women do and more. Female breadwinning and male homemaking did not seem acceptable even when they made economic sense. Robin, a stockbroker, rejected domesticity precisely because his poor work prospects left him in no state to bear the additional stigma of being a househusband. Although he was making far less money than his wife was, he felt too "demoralized" to consider staying home. "I'm not secure enough, I guess, to stay home and be a househusband."

As the supports for homemaking mothers erode, supports for equal and primary fathers have not emerged to offset the growing imbalance between children's needs and families' resources. Fathers have had to depend on paid help, relatives, and already overburdened wives even when they did not wish to do so.

These obstacles leave mothers giving up more. They also make involved fathers appear heroic about whatever they do. Many involved fathers thus used comparisons with other men to ward off complaints and resist further change. Ernie maintained:

> Sometimes she didn't think I did enough. I couldn't stand that because I thought I was doing too much. I really felt I was doing more than I should, whatever that means. I told her to go talk to some of her friends and see what their husbands are doing.

The answer to this predicament is not to stifle or condemn women's fight for individual rights but to hold men equally responsible for the moral work of caring for others. This, of course, means giving them more opportunities for family involvement. The decline of male breadwinning raises many dilemmas, but it also offers an unprecedented opportunity to bring greater equality to family and work life while expanding men's and women's range of choice and enhancing the well-being of children.

Men's Parenting and Social Policy

Since men's choices are shaped by social circumstances, the challenge is to build social institutions that support the best aspects of change (such as the expansion of equality, choice, and family involvement) and discourage the worst (such as the abandonment of children and the overburdening of women). We need to build policies that respect diversity, encourage responsibility, and create equal opportunity.

Women's movement into the labor force has made it clear that the home and the workplace are interacting rather than separate spheres. Yet conflicts between work and family have typically been viewed as a woman's problem. The current organization of the workplace makes it difficult for any parent, regardless of gender, to combine employment and parenting. Work poses obstacles to men's family involvement too, and to ignore these obstacles is to leave the problem unfairly resting on women's shoulders.

In addition, the historical bargain be-

tween employers and families has broken down. When employers paid their male workers enough to support a homemaking wife, they could argue that children's needs were not their concern. Since employers are now less likely to pay men a family wage that subsidizes female caretakers, the time has come to admit that most families depend on either two earners or one parent. What does this mean in practical terms? At the least, it means no longer penalizing employed fathers or mothers for providing the care and attention children need. Even more, it means offering workers greater flexibility in how they choose to balance work and family contributions over the course of the week, the year, and the career. Caretaking demands ebb and flow in unpredictable ways that cannot be addressed via rigid work schedules and career tracks. We need to create a more flexible boundary between family and work.

If involved parenting remains a formal option that few feel entitled to take without great sacrifice to their careers, the most ambitious or work-committed among us —women as well as men—will resist involved parenthood and reject the programs that exist on paper but punish those who utilize them.

Creating genuine family support policies to replace the patchwork of company-initiated programs that now exist will require political and legislative action. The federal family leave law that requires larger firms to offer their workers three months of unpaid leave in the event of a child's birth or a family medical emergency is certainly an important start, but it needs to become the floor on which we build more fundamental programs rather than the ceiling above which family policies cannot rise. Sweden, for example, guarantees all workers six weeks of paid vacation each year, three months paid leave when children are sick, the right to work part-time without losing one's job until one's children are seven years old, and 18 months of paid parental leave to fathers as well as mothers. A quarter of Swedish fathers take paternity leave. To move beyond short-term (and unpaid) family leave to secure the broader range of parental rights that many Europeans now take for granted may ultimately depend on a "parents' movement" comparable to the movements for workers' rights that once secured limits on the length of the workweek, safer working conditions, and minimum-wage guarantees. This means bringing men into the fight that women have pioneered in pursuit of a more family-supportive workplace.

Men's family involvement also depends on equal economic opportunities for women. Women's economic resources give them the leverage to insist that men parent more. They also make it possible for men to work less. A father's involvement depends on economic opportunities for his female partner. Thus, policies that promote economic opportunity for women also promote men's parental involvement.

Of course, economic opportunity and family obligation are related. Women cannot enjoy equal employment opportunities until men shoulder equal family obligations, and men are not likely to become equal parents until women enjoy equal economic opportunities. Indeed, when parenthood becomes as costly to men's work careers as it is to women's, then men, too, will have a stake in reducing the economic and social penalties for taking care of children.

Why should men support institutional changes that respect diversity and promote responsibility and equality? Because policies that offer men an equal opportunity to parent and offer women an equal opportunity to support their families will reduce the dilemmas and expand the range of choices for all. Even more important, the long-run fates of men, women, and especially children will depend on how our political and social institutions respond to the spreading dilemmas of family life that have been created in no small measure by changes in the lives of men.❖

Spheres of Affluence

Michael Lind

A short while ago, the end of the Cold War seemed to signal the advent of a borderless world economy. The collapse of Soviet communism suggested not only the superiority of a market economy over a command economy but also the superiority of the particular *kind* of market economy identified with Anglo-American liberal capitalism. Privatization and free trade agreements would be the order of the day. Whether radically free market or mildly social democratic, economic unions like the European Community and the North American Free Trade Agreement would ultimately converge into a single world market characterized by free movement of goods, capital, and labor. This new world order would be sponsored and policed by the United States, the sole remaining superpower, acting either alone or as the chief agent of a revitalized United Nations.

Four years, several armed conflicts, and a global recession later, this perspective looks increasingly dated. The European project has stalled. NAFTA passed only over the bitter opposition of a majority of Democrats in Congress. Commitment to idealized free trade remains strong in the foreign policy and economic establishments, but popular discontent with unfettered multinational capitalism is growing as that system's failings become more apparent.

And why not? In a low-growth, high-unemployment economy, popular concern about increasing wage competition with the workers of the South—whether in the form of immigrants in advanced countries, or as workers in overseas production facilities—cannot be dismissed simply as a resurgence of misguided nativism or of protectionist fallacies. When it comes to the grim new world economic order, the anxieties of growing numbers of workers in the North may be a better guide than the academic dogmas that now prevail over the intellectual debate.

A Virtuous Circle?

The debate about global laissez-faire confounds the usual ideological divide, as proponents of laissez-faire trade policy include both conservative libertarians and free trade liberals. On the conservative side, today's libertarianism is far more dogmatic and devoid of qualification than the liberalism of Adam Smith or J.S. Mill. Like Marxism, libertarianism is a utopian worldview based on an economic-determinist vision of history. Unlike Marxism, libertarianism is highly specific in its predictions about the transition to the utopian world order, rendering it vulnerable to fact.

In contemporary libertarianism, particularly in the crude forms in which it is purveyed by journalists, think-tank ideologues, and politicians, a number of specific propositions are woven together into a complex whole. What might be called the virtuous circle of libertarianism works like this: Free trade promotes higher economic

growth in all countries. In developing countries, trade promotes industrialization. Trade-based industrial development creates a consumerist middle class, which agitates for democracy instead of authoritarianism. At the same time, economic growth reduces the incentives for workers from the South to try to migrate, legally or illegally, to the countries of the North. Furthermore, rising living standards automatically lead to reductions in fertility, solving the problem of overpopulation.

In the industrial democracies, the effects of freer global trade are supposedly just as automatic and just as benign. Although "sunset" industries are lost to developing countries, workers will move into "sunrise" industries, such as service professions demanding higher skills and paying higher wages. Lower labor costs in the South will also help workers in the North, as cheaper imports replace more expensive domestic goods (whose prices reflect First World labor costs). Even defense costs can go down, because in a world united by economic interdependence, war will become less likely. Thanks to the virtuous circle of libertarianism, free trade, if practiced on a global scale, will more or less automatically and without human intervention enrich the North, industrialize the South, stabilize world population, end mass migration, and bring about universal or near-universal liberal democracy and world peace.

When a system of thought is dependent on many subordinate, independent claims, to discredit any one of them is to threaten to undo the entire design. Unfortunately for the proponents of this ideology, nearly every one of its fundamental assertions is questionable, if not demonstrably false.

Take the most basic assertion of libertarianism: trade drives economic growth. The historical record suggests the opposite. In the late nineteenth century United States, increased protectionism drove extremely rapid industrialization. The annual rate of increase in per capita gross national product was 1.8 percent between 1850 and 1870; 2.1 percent between 1870 and 1890; and 2 percent between 1890 and 1910. Beginning in the Civil War, the United States, dominated by Northern manufacturers, imposed high tariffs on imported manufactured goods, averaging 45 percent from 1866 to 1883. Far from falling behind, as libertarian theory would predict, the United States became the world's largest and most advanced manufacturing economy. What drives long-term productivity growth and prosperity is not increasing trade in a technologically static world but the substitution of technology for labor. Laissez-faire trade can retard this process.

It is often claimed that American economic nationalism was discredited by the role of American tariffs in causing or worsening the Great Depression. In reality, the Smoot-Hawley Tariff Act of 1930, which affected less than 1 percent of world trade, was a response to a worldwide collapse already under way; its negative effects were minor at best. The problem was not trade barriers but the collapse of demand, illustrated by the fact that duty-free imports into the United States dropped at almost the same rate as dutiable imports between 1930 and 1932.

The American example is not unique. All of the major industrial countries today, including Germany, Japan, and the Little Tigers (South Korea, Taiwan, Singapore, and Hong Kong), industrialized by following import-substitution policies, protecting their large home markets from being flooded with cheaper, superior products from the mature industrial countries of their day. Libertarians are unable to point to a single leading industrial country that industrialized by following laissez-faire policies of the kind that they insist today's ex-communist and developing countries follow.

In the 1980s, the U.S. government spent several hundred million dollars encouraging the relocation of U.S. manufacturing to 204 low-wage Caribbean export processing

zones. While lowering wages and destroying jobs in the U.S. electronics and apparel industries, this offshore production failed to kindle Japanese-style development; wages and living standards in the Caribbean basin declined in the 1980s, as did overall exports from the region. In 1991 the U.S. International Trade Commission concluded that expatriation of U.S. manufacturing to low-wage Caribbean countries "has not fueled economic growth and development in the region."

The fostering of multinational investment *can* play an important role in development but only where it is a subordinate element of a government-orchestrated economic strategy. In Singapore, for example, the government has combined hospitality to multinational corporations with an ambitious policy of infrastructure development, technology policy, and state capitalism. The government owns a variety of enterprises from Singapore Airlines to shipyards, banks, and factories, and has taxed salaries to create a huge pool of investment capital, the Central Provident Fund. As this example suggests, the orthodoxy of neoclassical economists in the U.S. government, academy, and multinational institutions like the International Monetary Fund and the World Bank, it appears, is increasingly out of touch with reality. History has evidently refuted Adam Smith, as well as Karl Marx, while vindicating the developmental economic nationalism of Alexander Hamilton and Friedrich List.

The libertarian promise that more trade means better wages is being undermined by the growing ability of multinational corporations to move production to low-wage countries and to use the threat of expatriation to bid down wages and social benefits at home. U.S. multinationals lead the world in the race to shift production to low-wage countries. Even some Japanese corporations are following U.S. multinationals to the South for export not merely to third countries but to the home market; for example, Nissan's automobile factory in Aguascalientes, Mexico, will make cars for Japan as well as Mexico and the rest of the Western Hemisphere. The end of the Cold War, freeing defense-industrial complexes for commercial production, and the privatization of state industries in Southern countries, dramatically increasing the number of highly skilled but poorly paid workers competing with their counterparts in the industrial North, has exacerbated these problems.

The libertarian conventional wisdom insists that these great geopolitical and geo-economic changes are unrelated to the economic problems of the industrial democracies. The slow growth and the lack of new, well-paid jobs in the industrial world supposedly result from a failure of national governments, alone or in concert, to pursue proper macroeconomic policies. All would be well if the Unites States reduced its deficit, if Germany lowered its interest rates, or if Japan liberalized its consumer market or revalued the yen. All should wait patiently for the end of the latest cycle of recession. Those who claimed to see a connection between Northern troubles and immigration or industrial expatriation were guilty of appealing to chauvinist and racist sentiments, in order to make immigrants, or developing countries, scapegoats for public policy problems of the North's own making.

This view, however, is becoming harder to credit. Since 1989, industrial production has languished at a mere 0.1 percent yearly growth rate in the advanced industrial nations, even as it has grown at a 4.6 percent annual rate in the developing world. Since 1989, more than 1.6 million manufacturing jobs in the United States have been lost. The number of jobs created from March 1991 to July 1993 is far below the average of other postwar recoveries, leading to talk of a "jobless recovery." Among jobs the recovery has generated, more than a quarter have been part-time jobs created by temporary employment agencies. The effects of these trends on wages are predictable. Between 1991 and 1993, hourly wages of service-sec-

tor workers dropped 0.3 percent, while hourly compensation of blue-collar workers dropped 3 percent. What is more, this downturn hit white-collar workers and managers more severely than past recessions. While many of these jobs have been eliminated by automation and corporate downsizing, the expatriation of industry has made the trends worse.

Free Trade Plus

A number of liberal scholars and policymakers, including Labor Secretary Robert Reich and New Jersey Senator Bill Bradley, have recognized the weakness of pure libertarian theory. To complement it, they have articulated a conception of political economy that would grant a limited role to the visible hand of government, without questioning the basic faith in ever-widening trade liberalization. Clinton has often endorsed this theme, emphasizing that if people are to accept necessary change they need a measure of basic economic security. Presumably the markets will not provide that security—job retraining, lifetime learning, workplace empowerment, higher value-added jobs.

Call this school of thought "free trade plus." The United States will benefit from global free trade, these liberals argue, as long as it makes the necessary investments in human capital and domestic infrastructure. The leading industrial democracies should concentrate on high-wage, high-skill sunrise industries and allow low-wage, low-skill sunset industries to migrate to the South.

Not only should the government retrain workers displaced by trade competition for better-paying jobs, but it should also work on enhancing the skills of the entire American work force. While ever more of the iceberg of a multinational enterprise is located in low-wage countries in the South (beneath the metaphorical water line), the actual size of the high-value-added sector (the tip of the iceberg in the North) expands as a proportion of the Northern work force.

AT&T's experience would seem to provide an example of the iceberg strategy in practice. Between 1984 and 1992, the company eliminated 21,000 blue-collar jobs in the United States while creating 12,000 new low-wage factory jobs in other countries. At the same time, it increased its white-collar work force in the U.S. by 8,000. "I need more engineers, designers, and high-skilled technicians, but fewer people who make circuit boards," claims William J. Warwick, president of AT&T's microelectronics manufacturing division. Such comments give a certain plausibility to Reich's theory that we need more retraining, not protection. "Even if you put a wall around the country," Reich, arguing for NAFTA, recently told the House Ways and Means Committee, "those low-wage, low-skilled jobs would still be disappearing because of automation." The Clinton administration proposes—in principle—to cushion the impact of NAFTA through reorganized federal retraining programs and fuller funding of labor adjustment programs, though the money is not yet forthcoming.

Notwithstanding the implausibility of additional public spending on labor subsidies, the theory suffers from more fundamental flaws. For example, its proponents mistakenly tend to treat entire industries as more or less primitive or advanced. Experience shows that *any* industry can be "advanced," with the right kind of technology-intensive development. For example, U.S. agriculture is the most productive in the world not so much because of superior natural advantages as of intensive application of advanced technology. Proper investment might turn the textile or shoewear industries, usually dismissed as primitive "sunset industries," into high-tech, high-wage, high-skill economic sectors. However, the selection of industries for this kind of intensive technology strategy precisely violates the dogma of free trade.

Another problem with the free-trade-plus theory is that while both expatriation and automation may destroy similar jobs, they do not necessarily produce similar consequences for the country. The entire

nation arguably benefits when employers pursue higher productivity through investing in new technologies while still manufacturing in the United States; the same cannot be said when employers choose to take advantage of low-wage labor abroad using existing production technologies. To the extent that the iceberg strategy encourages corporations to treat low wages in Southern countries as a quasi-natural endowment to be exploited, it may reduce the incentives to substitute capital and technology for labor, at great cost to technological advance. (The windmill, known in the ancient world, was not exploited because of the abundance of slave labor.)

Furthermore, it is far from clear that the high-skill jobs for which displaced workers will be retrained will not vanish along with the low-skill jobs. A growing number of high-skill, white-collar jobs in the United States are now endangered by the combination of global corporate strategy with high levels of competence in developing countries. Metropolitan Life employs 150 insurance examiners in Ireland to examine claims from around the world, at 70 percent of the costs of American examiners. Software research and design is now being done by local computer specialists in India by Texas Instruments; in Russia by Sun Microsystems; and in Poland by CrossComm, a Massachusetts-based company. The 34 Polish software developers who have designed CrossComm's most recent and advanced software from offices at the University of Gdansk make between $7,000 and $18,000 a year.

If even software design can be done better elsewhere, what high-wage, high-skill jobs are incapable of being exported? One answer is professional jobs. Since 1979, the real wages of high school dropouts have declined by 20 percent, while the incomes of workers with more than four years of college have risen by 8 percent, according to the Economic Policy Institute. Edward E. Leamer of the University of California at Los Angeles has tried to calculate the effect of the growth of international trade on U.S. wages from 1972 to 1985. According to his model, increasing trade raised the income of professionals by 9 percent ($33 billion) and reduced the income of nonprofessionals by 3 percent ($46 billion). Lest this seem like an even trade, it should be remembered that nonprofessionals enormously outnumber professionals in the United States (less than 10 percent of the American male work force has completed a graduate or professional education).

There are two ways to interpret the better performance of professionals relative to other workers in the new, internationalized economy. The most common explanation is that the world economy, in some vague way, rewards skill, intelligence, initiative (individual qualities that just happen to coincide, in most cases, with an expensive professional degree and/or inherited family wealth). If the global economy were really the primary cause of the dramatic rise in managerial-professional incomes in the United States, then the fees of doctors, lawyers, and corporate executives in Europe and Japan should have shot up during the 1980s. They did not; indeed, in Japan the wage gap between corporate managers and workers has actually shrunk. A more plausible, if less dramatic, explanation is that American professionals are the beneficiaries of a hidden protectionism based on credentialism and licensing. A corporation can hire an Indian computer programmer to do the work of an American computer programmer for a fraction of the wage; but it cannot hire an Indian lawyer to try a case in the United States via fax and conference phone. American professional accreditation is a nontariff barrier par excellence—representing the very *reverse* of the kind of economic globalization to which the rise in professional fees and wages, inaccurately, is attributed. Similarly, American corporate executives are less likely than assembly-line workers to see their jobs exported.

Even the hidden protectionism that boosts the incomes of managers and professionals, however, can be defeated, if cor-

porations replace full-time professional work with part-time professional work. During the 1980s, temporary work grew 10 times faster than overall employment; as a result, Manpower, a temp agency, has replaced General Motors as the largest private employer in the United States. To cut costs, the Bank of America is phasing out most of its full-time employees; ultimately, it hopes to have 80 percent of its staff made up of part-timers who work less than 20 hours a week. In the European Community from 1983 to 1988, part-time jobs grew 27.7 percent while full-time jobs increased only 2.4 percent. Even managers are not exempt; in 1991, as a result of corporate downsizing, unemployment among managers rose 55 percent, compared with only 15 percent among the population as a whole.

Even the most conservative projections of the growth of populations in the Third World suggest that labor forces in poor nations will grow faster than the supply of jobs. This means that competition with high-skill, low-wage Southern workers will continue to drag down wages in the industrial North under the laissez-faire scenario. Calculations of the number at which the earth's population will stabilize at steady-state "replacement fertility" before the year 2100 vary, from a low of 8.5 billion to a high near 11 billion. Even if only a fraction of the exploding Southern population becomes as productive as Northern workers, there will still be millions, perhaps billions, of workers, some of them with very advanced skills indeed, who are willing to work for Northern-based multinationals for a fraction of the wages paid in the North.

Selective Multilateralism

In the face of these trends, there is a grave risk that under pressure from their populations, governments in North America and western Europe will sacrifice significant aspects of the liberal international trading order to protect their workers and citizens from low-wage competition. The failure of free trade plus to arrest and reverse the decades-long decline in real wages for the average American is likely to produce a directly protectionist rather than a neo-libertarian response. There is a growing risk that parties in all the industrial nations will sacrifice a liberal society at home in order to defend living standards. Indeed, in order to preserve the elements of a liberal society that are worth saving, we need to sacrifice libertarian fantasies about trade that are actually self-defeating.

It would be tragic if an overreaction to extreme claims for trade liberalization produced an equally extreme protectionism. Instead, we need a policy of *selective multilateralism* to buffer low-wage competition in key industries while preserving a relatively high degree of free trade among the industrial democracies. In industries selected for their job-creating possibilities as well as strategic importance, the United States might impose a social tariff on imports from low-wage countries that would not affect imports from high-wage countries. The competition from high-wage countries (presumably based on better technology or superior management) would pressure American manufacturers to improve productivity, while the social tariff would discourage them from cutting costs by lowering wages and benefits. The tariff would also press newly developing nations to adopt the social and labor standards necessary to join the liberal trade club.

Selective multilateralism would not solve the problem of worker displacement by automation. (Here the kinds of retraining programs advocated by Reich and former Labor Secretary Ray Marshall make sense.) Nor would it address other important issues, like the organization of work and the distribution of profits from increased productivity. (Here federal legislation is probably needed to limit the reliance of employers on part-time employees and to mandate profit-sharing with workers.) Northern countries will continue to make exceptions to the norm of free trade among themselves, to protect or create industries

critical to national security and the long-term development of an advanced technology base. In addition, Northern countries that engage in mercantilist practices at the expense of their trading partners might be punished multilaterally (for example, the United States and European Community could penalize Japan for its persistent trade imbalances). Nevertheless, selective multilateralism could help balance the desire for freer trade among the industrial countries with the need to discourage multinationals from adopting high-skill, low-wage economic strategies.

The adoption of a wage-based social tariff would mean limiting the exposure of Northern markets to many Southern goods. In practice, there might be two exemptions. The first involves trade in industries in which nature provides comparative advantage, like raw materials or agriculture (economic nationalists like Hamilton and List did not favor trade protection in agriculture). Unless there are national security reasons to do otherwise, it makes sense to import inexpensive oil, minerals, or farm products. Second, for strategic reasons, Northern countries may need to negotiate bilateral special relationships with countries of "the near South" to reduce political instability and migration. These bilateral agreements between rich countries and their poor neighbors should take the form of concessions in specified sectors, rather than free trade agreements that permit the poor countries to be used as low-wage export platforms for Northern multinationals selling to their home-country markets.

The proposal that the South develop by means of exports to Northern markets cannot work for the majority of poor countries. The United States, in particular, cannot continue to be the market of first resort for developing-country exports. Between 1980 and 1984 alone, 71 percent of the growth in manufactured exports from East and Southeast Asia went to the United States, while only 9 percent entered the Japanese market. Ultimately, most of the consumer markets of Southern countries must be in the South itself.

In the long run, the best hope for development in most of the world will be to create new Japans from late-industrializing countries. This can be accomplished with intelligent combinations of import-substitution and export strategies with rising domestic purchasing power. If new centers of the world economy appear, it will be because developing countries will have taken the same approach as the United States and Germany in the nineteenth century and Japan and the Little Tigers in the twentieth century: protecting infant industries through formal and nontariff barriers, state subsidies, strong and competent government, and a casual approach to intellectual property. While trade in some manufactured goods might be reduced in such a world, transnational investment might flourish (British investors helped develop the United States at a time when a wall of tariffs kept out British manufactured imports).

Appeal Across the Spectrum

A trade policy of selective multilateralism might appeal to politicians and thinkers across the political spectrum. While conventional conservatives remain wedded to the liberal internationalism (originally of Democratic vintage) that they adopted in the 1950s, there is growing interest among serious conservative thinkers as well as right-wing populists in the submerged American tradition of Hamiltonian economic nationalism, ignored for decades by the disciples of Adam Smith, Ayn Rand, and the Austrian School. A growing number of thinkers on the right are questioning libertarian orthodoxy, including Republican trade expert Clyde Prestowitz, Republican political analyst Kevin Phillips, and former Cold War hawk Edward Luttwak.

The contemporary Republican Party, however, is largely unreceptive. The Goldwater-Reagan movement transformed the Republican Party from a

developmental-protectionist alliance of Midwestern mainline Protestants and American domestic manufacturers into an alliance between white Protestant fundamentalists in the South and West (the least industrialized regions) and an economic elite of financiers, realtors, foreign lobbyists, rentiers, and executives of multinationals with little or no material stake in manufacturing within U.S. borders. Accompanying this shift has been the replacement of the bourgeois, modern, progressive nationalism of Lincoln and Theodore Roosevelt by an ideology reminiscent of the anti-modern, culturally pessimistic conservatism of an older Europe (which also idealized a transnational order—that of the *ancien régime*).

Disaffected Perot Republicans and some former neoconservatives might find a socially moderate and economically nationalist Democratic Party more appealing than a Republican Party dominated by Wall Street and the Christian Coalition. A reorientation of that magnitude would require populist leaders in the tradition of FDR, Harry Truman, and Lyndon Johnson, rather than conservative Democrats at war with their own party base, like Jimmy Carter and Grover Cleveland.

Today the United States and the other industrial democracies must choose between a strategy that defends wages and living standards in the North while seeking to raise them in the South, and a strategy that pits Northern versus Southern workers, driving down wages and living standards in one or both regions. A high-skill, high-wage strategy of selective multilateralism that realistically addresses the need for government regulation of cross-border flows of goods, labor, and capital, while preserving the ideal of free trade among the industrial democracies, will probably become increasingly attractive to policymakers responding to pressure from the wage-earning majority. We are fortunate that in this case the policies that are most popular are also, for the most part, the best ones.◆

Voters in the Crosshairs

How Technology and the Market Are Destroying Politics

Marshall Ganz

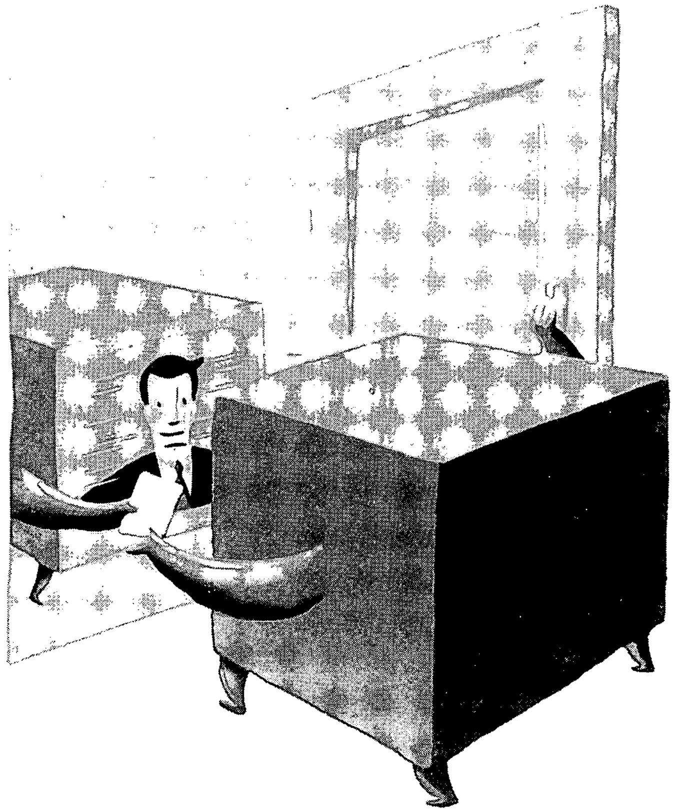
> *Organize the whole state, so that every Whig can be brought to the polls . . . divide the county into small districts and appoint in each a sub-committee . . . make a perfect list of voters and ascertain with certainty for whom they will vote . . . and on election day see that every Whig is brought to the polls.*
>
> Abraham Lincoln
> Illinois State Register
> February 21, 1840

Campaigns and elections are the lifeblood of American democracy and the principal means by which citizens form and express political opinions. Any less than full and equal electoral participation puts democracy at risk. Today electoral participation is neither full nor equal, and it is getting worse. Paradoxically, new campaign technologies and practices bear significant responsibility for declining participation. While making it easier to communicate with voters and to create Lincoln's "perfect list," direct mail, databases of voters, polling, and targeted advertising also depress voter turnout and fragment the electorate. The source of this conflict lies in the combination of the technology, the new class of political consultants it has empowered, and the marketplace institutions to which the management of campaigns are increasingly relegated (like so many other public goods).

The paradox demonstrates a fundamental American dilemma: the conflict between equality and liberty and, more specifically, the conflict between a politics based on equality of voice and an economics based on inequality of resources. To the extent that voice depends on resources, an unregulated political market guarantees political inequality. The new technology has given those with more resources access to even greater voice. As a result, many elections have become for most citizens exercises in choosing between two power blocs representing similar if not identical resource-rich interests.

Not surprisingly, fewer Americans are taking part. Election scholar Walter Dean Burnham reports voter turnout in presidential elections outside the South declined from 73 percent in 1960 to 54 percent in 1988. Participation expert Sidney Verba found that turnout for local elections during a similar period declined from 47 percent to 35 percent.

Verba also found that the well-known bias that favors higher electoral turnout among wealthier voters is even greater for other forms of participation. Families with incomes below $35,000 comprise 54.6 percent of the eligible electorate but only 50.3 percent of voters. On the other hand, those earning more than $50,000 make up 24.6 percent of the electorate and 28.1 percent of voters. In campaign hours, the lower



income group contributes 35.5 percent, while the upper income group contributes 50.1 percent. In campaign dollars, the lower income group gives only 16.5 percent, while the upper income group contributes 71 percent. Indeed, the top 10 percent contributes 50 percent of all the money that supports political campaigns.

Because politicians pay more attention to the people who put them in office, this pattern of participation means the interests of a major portion of the electorate, if not a majority, are consistently left out of the political calculus.

The mechanisms by which elections are conducted are a kind of electoral "means of production" for the polity. Electoral mechanics define who takes part, how they take part, what resources are needed to take part, and thus whose interests the outcome will reflect. The introduction of radical new communications technologies has dramatically altered the way in which elections are conducted. This revolution, in turn, has altered the political system itself.

Hunters and Gatherers

Since the 1830s, American political campaigns have pursued one of two basic strategies: vote "gathering" that maximizes turnout or vote "hunting" that minimizes it. During the nineteenth century, political parties "gathered" votes by using marches, rallies, patronage, and a partisan press to mobilize known supporters; in 1896 turnout outside the South reached a peak of 86 percent. Early in the twentieth century, however, an establishment fearful of populism and new immigrants used restrictive voting measures, such as voter registration, as well as a nonpartisan press and new advertising and broadcast technologies in a "hunt" for the "responsible" but undecided voter. By 1920, turnout outside the South had declined to a new low of 57 percent. With the political upheavals of the 1930s, vote gathering resumed as newly organized unions and a revitalized

Democratic Party generated new political resources that were applied to renewed voter mobilization. Turnout increased, reaching 73 percent in 1940.

Modern campaigning, which began with polling and television in the 1960s, marked a return to vote hunting. Although polling developed from demographic studies by Gallup and Roper in the 1930s, it reached public acceptance only in the early 1960s when Lou Harris achieved fame as John F. Kennedy's pollster. Polling enabled politicians to learn voter opinions without attending to constituency leaders or the voters themselves. It became possible to "know" the electorate without having a relationship with it. Polling also created a role for the electoral expert whose "expertise" derived not from political or organizational experience but from mastery of the new technology.

Television transformed political campaigning along with much of American life beginning with the 1952 Eisenhower campaign. Television was also credited with Kennedy's presidential victory over Richard Nixon in 1960. Television transformed JFK's state primary victories into national events, creating a momentum Democrats could not ignore, and gave the photogenic Kennedy a critical edge over Nixon. By the 1970s, television advertising had become a key element in most major campaigns, as well as the principal factor driving up their cost. Television also introduced a second technological expert—the "media adviser" typified by long-time Democratic campaign consultants Tony Schwartz or Joe Napolitan.

Computers, which had been used to support polling, began to have a separate influence in the 1970s. Computer technology made it possible to develop direct mail fundraising campaigns on a large scale but with precise targeting. About the same time, marketing companies learned to combine census data and polling information, enabling marketers to target consumers by zip code according to their lifestyle and preferences. As voter registration lists and other electoral data became computerized at the state, county, and city level, microcomputer technology spread and there developed an industry of over 2,500 firms providing each campaign with targeted, custom-made lists. Consequently, voter contact strategies are targeted down to the level of the individual voter.

In 1984 Frank Tobe, a leading practitioner of computer targeting, described his mission:

> Campaign mangers . . . need to be aware of the exciting, new delivery products for campaign messages afforded by today's computer technologies and decide which are most relevant and cost effective for the race they are working on . . . computer-prepared laser letters, pre-filled-in absentee ballots, computer-generated slate cards, tasteful and stylish response devices, urgent looking (get out the vote) messages, polished and authentic looking endorsement letters, and hundreds of other computer prepared products all improved by some level of personalization far beyond simple inclusion of the recipients' name or city into the copy.

Meanwhile, modern campaigns have become even more expensive while voter turnout has fallen to a new low. Campaign expenditures climbed from $200 million, or $2.80 a vote, in 1964 to $2.7 billion, or $29.48 a vote, in 1988, but voter turnout outside the South fell from 73 percent to 54 percent.

The Professionals

Each technological innovation produced a new expert—or "consultant"—who provided access to the new tool for a fee. In the absence of strong parties or public regulation of campaign activities, candidates made deals directly with consultants. No longer was running for office an organizational activity; it was now an "entrepreneurial" endeavor. The premium was on the cash to buy expertise rather than the loyalty to command organization. The campaign manager or press agent of yore,

often a party operative or associate of the candidate or his supporters, was replaced by a paid professional.

The arrival of television in the early 1950s provided professional campaign consulting with its real kick-off. In *The Rise of Political Consultants,* Larry Sabato noted that by 1972, 168 out of 208 candidates for state office were reported as having hired professionals, as had 61 out of 67 U.S. Senate candidates, 38 out of 42 gubernatorial candidates, and 30 out of 37 candidates for attorney general. By 1986, after the introduction of computer targeting, consultant Frank Lutz reports that 85 percent of 138 senatorial or gubernatorial candidates hired professional pollsters, 94 percent had professional media consultants, and 4 percent had no consultants at all.

Ironically, the rise of the consultants was also spurred by the campaign finance reforms of the 1970s and the 1976 Supreme Court decision, *Buckley v. Valeo,* that declared spending limits unconstitutional. The legislative reforms attempted to regulate contributions rather than expenditures, thus trying to control supply rather than demand. The unabated demand for money, however, simply created a premium for fundraisers with expertise in the new requirements. The contribution limits also placed a premium on the ability to raise large sums of money in small amounts from many donors. Direct mail fundraising thus received a new boost, as did political action committees (PACs). The legacy of this legislation was to make campaigning still more expensive and the role of consultants still more critical.

The way in which consultants are compensated also drives up campaign costs. Consultants are usually paid a flat campaign fee plus a commission based on the cost of the services the campaign (the consultant) purchases. For example, a consultant paid a flat fee of $100,000 will also receive a commission of 15 percent to 20 percent of all the money spent on the television buy, direct mail, and even billboards. A typical television buy of $300,000 and direct mail expense of $250,000 will return the consultant an additional $120,000. Consultants also often own interests in their subcontractors (printers, mail houses, telemarketing firms, and so on), providing them with additional income. A consultant who produces a mailer for $.32 per piece will charge the client $.40 per piece. If a campaign sends, say, 27 mailings of 75,000 brochures each, the consultant nets an extra $162,000. Since top consultants handle from five to ten campaigns simultaneously, their earnings potential is impressive indeed.

The personal quality of consulting has inhibited the development of a competitive market. A winning reputation is so important that a candidate's capacity to raise money and discourage competition often depends on hiring the right consultant at the right time. Absent political parties with the resources to take advantage of the new campaign tools, and absent reforms to limit spending, consultants are able to sell their expertise for "all the market will bear."

The thrall in which many consultants hold candidates also gives these professionals greater control over the content of a campaign than candidates themselves. In a 1989 survey, 44 percent of political consultants interviewed reported that their candidates were uninvolved in setting the issue priorities in their own campaigns, and 66 percent reported candidates to be uninvolved in determining the tactics.

Consultants have thus come to play multiple roles: campaign manager, press agent, party, and even candidate. But for most political consultants, the motivation to get out the vote is private, not public, gain. For these professionals, politics is not a public domain in which each citizen is to have an equal voice. It is a business in which market principles apply and there is one criteria of success—winning. From the consultants' perspective, winning does not depend on who is right, who is the better candidate, or what is in the best interest of the community. As Stanley Foster Reed, founder of the trade journal *Campaigns and Elections*, put it in his 1980 premiere issue:

> What makes the difference between winning and losing a political campaign? Is it the same thing that makes the difference between succeeding and failing in business? Yes! Management makes the difference. Management of resources: money, media, people.

Of course, candidates, parties, and constituency leaders also want to win, but this desire dovetails with the long-term interests of their political community. The consultant's calculus, on the other hand, considers only will it win and does it make money?

Although the consequences of this marketplace thinking for American democracy are serious and far-reaching, they are not the result of insidious forces or a malevolent cabal. They are the result of intelligent people making conscious and "utility maximizing" decisions under the current arrangements that govern American political campaigns.

Campaigns Old and New

The guiding principle of modern campaign management is "bang for the buck"—the allocation of each dollar to achieve maximum possible effect in the *current* election. Traditional campaigns took a more long-term, investment approach, building the party infrastructure through voter registration and precinct organization. The new campaign methods not only raise costs and empower consultants, they also require that money be spent in different ways. Today's campaign strategies have reached a new level of sophistication, where only those voters most likely to vote are wooed, messages change with demographics, issues are condensed into fleeting televised images, and campaign organizations are nearly as ephemeral.

Targeting I: Reducing the Universe. Traditional campaign strategy would expand the electorate and motivate voters to participate. A voter registration drive, for example, would increase potential support in the district by targeting pockets of unregistered supporters based on the density of partisan registration. Each campaign would then target its own partisans for mobilization and a portion of the other party's adherents for persuasion. Both campaigns would target unaffiliated voters for persuasion. This logic would lead to the targeting of 60 percent of registered voters for mobilization by one of the campaigns and 40 percent of registered voters for persuasion by both campaigns. An election day get-out-the-vote program would then focus on turning out all identified supporters to vote.

This was the strategy Senator Robert Kennedy's 1968 presidential campaign used in targeting California Latinos for pre-primary voter registration, especially in East Los Angeles. The extraordinary turnout from this community was a key factor in Kennedy's primary win. Today such a registration effort would never happen, on grounds that historically lower turnout among Latinos means that precious campaign dollars should be invested in persuading more-likely voters.

For the last couple decades, campaign consultants have been perfecting ways to restrict the electorate by "reducing the universe" of voters, long before Ed Rollins caused a furor by claiming he paid New Jersey ministers not to encourage their congregation members to vote in the gubernatorial race last September. The computerization of voter registration files and emergence of "list vendors" who purchase tapes of these files and convert them into customized, campaign-specific lists make possible this new approach to targeting. Matching voter files with tapes of phone directories, ethnic surname dictionaries, county assessor records, and voter turnout reports makes it possible to generate lists of voters individually profiled by their party affiliation, age, gender, marital status, homeowner status, ethnicity, and frequency of voting. Consultant Matt Reese explains how this information is used:

> Targeting is a process of excluding people who are not "profitable" to work,

> so that resources are adequate to reach prime voters with enough intensity to win them. Targeting provides an ultimate "lift" to the voter contact process, allowing maximum concentration of resources to a minimum universe.

Voter registration, for example, is rarely considered because newly registered voters are less likely to turn out than established voters. Also, it requires a "ground force" of volunteers or paid registrars. In the absence of an ongoing program, there are numerous problems of management, recruitment, and quality control in creating such a team for a single campaign.

The effects of this new campaign ethos can be seen in a hypothetical district, where 55 percent of the registered voters are Democrats, 35 percent are Republicans, and 10 percent are independent or "decline to state." The first step in applying the new strategy is to buy computer tapes that describe the district by party and by voter turnout. Of all registered voters, 24 percent have no record of voting, suggesting that they are gone, and 39 percent vote only occasionally, mainly in presidential elections. These voters are ignored because they are unlikely to turn out unless stimulated. The likely voters, a bedrock 37 percent of registered voters who vote in most elections, are the prime targets of the campaign. Among these, priority is assigned to the Democratic 10 percent, Republican 5 percent, and independent 2 percent judged to be "swing" voters based on their electoral or individual histories (a Republican living with a Democrat, for example). This 17 percent is targeted for persuasion and becomes the heart of the campaign, the real determiners of the issues the campaign will address. The remaining 20 percent of the electorate who are likely voters and are likely to be loyal to their parties are contacted mainly to inform them of the candidate's identity and affiliation. They are not mobilized because they are regular voters.

As of election day, 63 percent of registered voters will not have been contacted by anyone. If, as is typical, only 60 percent of the eligible electorate were registered, 78 percent of the eligible voters in the district would never be contacted. These uncontacted voters are far more likely to be of lower socioeconomic status than those who are contacted. They never hear from a campaign and thus will likely stay at home on election day or vote the way they always have. The assumption that past voting behavior is predictive of future behavior becomes a self-fulfilling prophecy. With both campaigns in last June's Los Angeles mayoral election using this kind of reasoning, it is not so surprising that, despite the city's troubles, less than 25 percent of the Los Angeles electorate turned out to vote.

Targeting II: The Segmented Electorate. After "reducing the universe" limits the campaign to just 37 percent of the registered voters, further targeting segments it for assault by direct mail. In a recent interview, Richie Ross, consultant to California Assembly Speaker Willie Brown, described the process:

> Once a consultant goes to work for a candidate, he or she will cross-reference the district's population over and over, until the desired geo-demographic groups have been isolated. These groups are always exceedingly narrow. The number of demographic groups targeted in a specific campaign ranges from 60 to 1,200 with the precise figure depending on the level of office being contested and the amount of money a candidate has to spend. . . . A typical congressional campaign might have around 300 groups targeted.

Information on each of these subgroups is matched with polling data, and the campaign messages are developed to deliver what Matt Reese calls "different—and compelling—truths" to those various segments.

Instead of a single campaign with a single theme that unifies a candidate's supporters, parallel campaigns emerge, each articulating themes narrow enough to appeal to the peculiar characteristics of each sub-con-

stituency. In a recent California Assembly campaign, for example, married Catholic homeowners learned that the candidate supported family values, while single Jewish women under age 40 found the candidate had been consistently pro-choice.

Although direct mail was originally developed for small-donor fundraising, consultants adapted it to the delivery of the segmented message because it is far less expensive than television and can market politics to precisely the right voters.

Far from aggregating the interests of the electorate, the new campaign thus serves only to further disperse them.

The 30-Second Spot. As television has driven up campaign costs and given new currency to consultants, it has devalued the quality and content of political discussion. The quest for the six o'clock news sound bite and the reduction of political debate to visual-emotional images that can be conveyed in 30 seconds have been major factors in redefining American political discourse.

To the extent that voters depend on campaigns for political information, the "30 second rule" allows the medium to obstruct the message. Thus the emptiness Americans observe in their political dialogue may be mechanical as well as substantive in origin. Even worse, the 30-second bite has been a very effective tool for the negative campaigning that increasingly takes the place of issue differentiation between candidates who target the same voters.

Developments in targeting and direct mail, however, have made the economics of television advertising problematic for all but the largest campaigns and those in which district boundaries coincide with a particular media market. Television is so expensive because it is billed according to the size of the entire market a particular channel reaches. For example, if a candidate for the Los Angeles City Council in a district with 100,00 voters runs a television commercial, he or she pays for reaching all 10 million people in the Los Angeles basin.

A revival of televised political advertising may occur if it can become a visual version of direct mail. Newer wireless cable technologies and the proliferation of local and specialized carriers may both lower the cost and offer access to highly targeted audiences currently possible only through the mail.

Instant Organizations. When consultants determine a need for people-intensive tactics, they turn to "instant organization." For example, canvassing may be required to determine the identities of undecided swing voters who may then receive calls or mailings customized to their concerns. Or an election may be so close—and well funded—that occasional voters will be targeted for get-out-the-vote work. With atrophied party structures, weakened constituent organizations, and the increasingly lost art of building a campaign structure to recruit, train, and direct volunteers, consultants subcontract to purveyors of "instant organization," or IO.

Providers of IO hire a paid staff to run field operations that dissolve at the end of the campaign, leaving candidate and consultant free of costly maintenance and accountability problems. IO generally entails paid door-to-door or telephone canvassers using prepared scripts to solicit voter support and who are paid on a per-head or bounty basis. The results of their contacts are then computerized and dovetailed with mailing or recontact strategies. That such efforts can be effective—for vote gathering as well as vote hunting—is demonstrated by the 1986 campaign of California Senator Alan Cranston. Six weeks before the election, after Cranston and his opponent, Ed Zschau, had spent $15 million each on television and direct mail, Cranston committed $300,000 to an IO get-out-the-vote effort. Computerized targeting identified "unlikely" voters who were supporters. The only work done by the precinct was turning them out to vote. The 160,000 unlikely voters who did turn out gave Cranston the 110,000 vote edge he needed to win.

In the absence of an institutional structure to connect with, however, almost all of

these organizations have been abandoned by the candidate "the morning after" the election. Candidates' agendas shift to raising money to pay off campaign debt (and accumulate a new war chest), accommodating interest groups, and insulating themselves against opposition in the next election. This development, in turn, induces cynicism among organizers and volunteers who generally want to have a longer term role in policy as well as politics.

The "New" Campaign and American Democracy

These developments have eroded the quality of American democracy in four important ways.

Decline and Bias in Voter Turnout. New campaign methods undermine and bias voter turnout by failing to communicate with all but the most likely voters. This denies many people the resources and motivation they need in order to participate—particularly voters at the lower end of the socioeconomic spectrum.

Resources include political information and skills; motivation includes attitudes that encourage participation, a belief in one's political efficacy, and a clear political interest. Citizens of higher socioeconomic status generally have greater access to both resources and motivation. Sidney Verba found, however, that the motivational deficit can be compensated for when "group consciousness" makes a voter's interest in participation clearer or provides a heightened sense of efficacy. The resource deficit can be offset by organizational affiliation, which allows the activist to gain political skills and information. This explains the impact that unions had on American workers in the 1930s and that many Protestant churches have on African-American constituencies today.

Diminished voter contact also inhibits the formation of political opinion. In *The Reasoning Voter*, political scientist Sam Popkin reported that voters use the information they receive from campaigns, Popkin says, because they have limited information about government and are "open to influence by campaigners who offer them. . . better explanations of the ways in which government activities affect them."

The voter's understanding of campaign issues is also directly related to the amount of debate to which he or she is exposed. Popkin found that "the more the candidates talked about an issue [in a campaign] and the greater their differences on it, the more accurately it was perceived." The logic of the "reduced universe" denies this information to the voters who most need it.

Finally, the "dehumanization" of voter contact techniques damages efforts to turn people out. Campaign activities that depend on popular participation for their effectiveness—such as voter registration and get-out-the-vote programs—have been widely dismissed as not cost-effective. Yet studies like those of political scientist Ray Wolfinger have verified that people are most likely to respond to other people. Wolfinger found that active precinct increased voter turnout in New Haven by as much as 10 percent.

Decline and Bias in Political Activism. Because the new campaign devalues all forms of political activism except for giving money, the role of the political volunteer has been all but eliminated. This dampens overall levels of participation and limits it to those with the financial resources to become contributors.

The decline of the volunteer has closed off an important source for recruitment of political leadership, and many people drawn to politics today must seek entry instead as employees or interns. The reduced demand for volunteer activity has also likely contributed to a decline in membership in political organizations, according to Verba, from 8 percent of the citizenry in 1967 to 4 percent in 1987.

The Weakening of Civic Society. The new campaign has undercut broad-based democratic organizations through which individual citizens have traditionally participated in public life. Traditional democratic organizations, which rely heavily on

volunteers, once served as important "schools for democracy" where citizens acquired resources and motivation for active political participation. These organizations—parties, unions, political clubs, and civic groups—help formulate political choices and provide organizational mechanisms to encourage voting. The atrophy of these associations and the rise of Washington-based lobbies that do little more than seek members' money through direct mail both reflect and reinforce the rising influence of money and the declining importance of citizen participation.

Erosion of Common Interest. Segmented voter interests have undermined incentives for political leaders to articulate and act upon those interests citizens do share. Indeed, intensity of political voice seems to have become directly related to narrowness of vision, while breadth of vision is related to weakness of voice. Much of this "narrowness" can be directly traced to the new campaign and its approach to "political marketing."

The reduction of individual voters to demographic abstractions has even dampened the incentive of citizens to intelligently translate their own competing interests into coherent politics. A voter receives one piece of mail as a married Catholic, another as a 30-year-old professional, and still another as an "environmentally concerned" citizen. Each piece of propaganda asserts the overwhelming importance of its own priorities and course of action. The set of concerns that least enters the campaign are those of citizens of lower socioeconomic status. As a result, the marginal voters are rendered invisible, as their concerns go unrepresented, and silent, as their capacity to articulate those concerns remains undeveloped. Thus instead of providing an experience in "strong democratic talk" that helps to define and articulate common interests, the new campaign is a political cacophony in which one coalition of dissonant and powerful interests seeks to defeat another. This offers a grim prospect for the future of American democracy.

Restructuring Voice

The introduction of new political technologies has crippled the American attempt to combine equal voice in politics with unequal resources in economics. Technology, however, is only a set of tools. The critical factor is the "free market" approach to the management of politics and elections. Weak parties and an ineffective method of governing elections has allowed the new tools to enhance the power of those with the resources to buy access to them.

Establishing equality of political voice for all Americans will require major institutional change: a reconstruction of the political parties and the public allocation of campaign resources.

Despite their weakened condition, political parties remain one of the few institutions with which a significant number of Americans still identify. The rule of thumb in most campaigns is that 80 percent of voters will vote for the party with which they are registered. Political parties also have the framework of a democratic structure through which participation can take place. They are uniquely positioned to have a strategic interest in gaining more adherents and thus in expanding the electorate.

Partisan "reconstruction" would begin with measures enabling them to build their own financial base from resources unavailable to candidates running for office. These resources could be used as the political capital to invest in the following partisan infrastructure:

- party-owned computerized voter files available to all endorsed candidates;
- voter registration drives targeted on the non-participating voter with the intent of expanding support for the party;
- ongoing precinct organization available to support endorsed candidates but not dependent on them for finance;
- "generic" media campaigns targeted at the non-participating electorate encouraging them to join the party, etc.

Reconstructed parties could then become vehicles for currently disempowered

interests to reenter the political process and serve as a means for rebuilding a politics of inclusion and common interest.

Second, the cost of campaigns must be reduced and equalized, attacking the demand side of the equation by allocating the availability of political resources in an equitable fashion. The mail, the radio waves, and the television airwaves belong to the public, and access to them by political campaigns—as to any limited public space—should be allocated by the public in the public interest.

In other words, bona fide candidates should receive equitable but limited access to the mail, radio, and television. This would limit the need for funds, soft and hard, thereby reducing the incentive to raise them. Public finance could be provided to campaigns agreeing to operate within this framework and denied to others. This would avoid problems created by constitutional inhibitions to limitations on campaign spending per se and yet reduce the incentive for ceaseless, seemingly limitless, fundraising. Limiting what could be purchased and the money available to purchase it could force candidates to turn back toward volunteers, parties, and other organizations able to provide the human power, which could then provide the "edge" in winning a campaign.

The paradoxical impact of the new technology is captured most clearly by the authors of *The Electronic Commonwealth*:

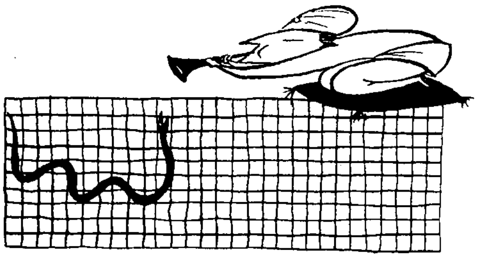
> Here we come to an essential irony about the impact of the computer age on our democracy. In theory, the computer is a vast force for equalizing access to information: no information is so remote or closely held as to be unobtainable by the average citizen. In practice, however, the computer tends to widen the information gap between economic classes.

The political challenge which we face is to gain control over the consequences of our own technology, finding ways to use it to bring the goal of a democracy of "equal voices" ever closer to reality. It is, however, only through a mastery of the politics of our time that we can hope to succeed.❖

Depressing Our Way to Recovery

Dean Baker

Two and a half years after the official start of the recovery from the 1990-1991 recession, the U.S. economy is still experiencing weak growth and is generating relatively few jobs. (See the chart "A Feeble Recovery.") Employment has barely regained its pre-recession peak in 1990. More people who seek full-time work have had to settle for part-time



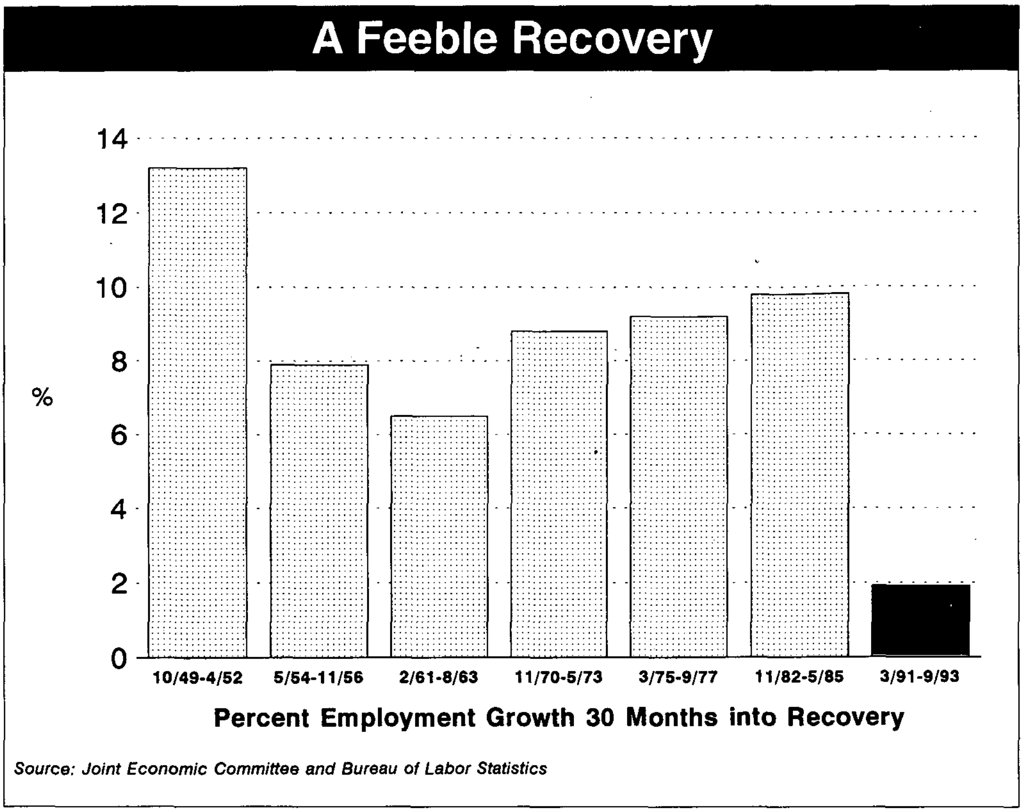
employment. Comparatively well-paid manufacturing jobs continue to disappear, replaced by jobs in restaurants, hotels, and temporary employment agencies. Investment growth has also been the slowest of any postwar recovery.

Yet remarkably, most of the nation's political leadership, whether Democratic, Republican, or Perotista, thinks the cure is further deficit reduction. A constitutional amendment to require a balanced budget by fiscal year 1999 (which begins in October 1998) has a very good chance of passing in this session of Congress. Conservative Democrats have joined Republicans in pushing the administration to accept deficit cuts beyond those of the 1993 budget deal, which cuts the deficit by $496 billion over five years. A large majority of the congressional freshman class—mostly Democrats—equates deficit reduction with both responsiveness to voters and economic recovery.

While deficit reduction is the current craze among politicians and commentators, virtually all economists (including those who support rapid deficit reduction) acknowledge the following:

- In the next three to four years, deficit reduction will lower effective demand, slow economic growth, and impede job creation.
- Spending cuts or tax increases will have the same short-term effects: both pull money out of the economy and retard growth.
- The impact of deficit reduction on investment is slow, indirect, and uncertain. Deficit reduction has limited influence on interest rates, and lower interest rates only marginally increase investment.
- The impact of deficit reduction on U.S. exports is also slow and indirect. It will depend both on how exchange rates respond to changes in interest rates and on how trade adjusts to changes in exchange rates. Most evidence indicates that exchange rates respond slowly and erratically to changes in interest rates and that trade flows take two or three years to respond to changes in exchange rates.

Advocates of deficit reduction think they are trading short-term pain for long-term gain. Yet lost in the debate is the nature of that pain. The real pain of deficit reduction is not primarily the higher taxes or spending reductions touted as virtuous and necessary belt tightening by deficit hawks but the higher unemployment and slower growth that deficit reduction will bring about. (See the table "Experts Agree.")



These latter costs are wholly unnecessary sacrifices—the bitter fruits of wrongheaded policy.

When government cuts spending, workers that used to be employed by the government and suppliers of materials to government and recipients of transfers from government lose income and jobs. There also is a secondary, "multiplier" effect that results from the falloff in consumption, which causes other workers to lose their jobs. The effect is essentially the same for a tax increase. Higher taxes reduce the money that individuals have available to spend, leading them to reduce their consumption expenditures. This leads to layoffs, which again have the same sort of secondary multiplier effect.

What do deficit hawks think they are accomplishing? Deficit reduction, whether via spending cuts or tax increases, is supposed to help the economy, first, by freeing resources for investment. More investment should raise productivity and hence wages. In addition, deficit reduction will supposedly boost exports, providing more domestic jobs and reducing our foreign debt. But in both cases, the logic is badly flawed.

Studies have failed to find a statistically significant effect between public deficits and interest rates. And the interest rate is only one of many factors that firms consider in making investments. Virtually all studies that sought to measure empirically the effect of interest rates on investment have found that the most important factor is the rate of growth of demand. Even Barry Bosworth, a prominent Washington deficit hawk, came to this conclusion in his study *Savings and Investment in a Global Economy*. This should not be surprising, since firms are unlikely to invest in a new factory or expand an existing one when they are already operating well below capacity.

Another important factor in the investment decision is the cash flow of firms. Most

investment is financed out of firms' retained earnings, since it is generally easier for firms to use their own money than to get bank loans or issue stock. Recent econometric studies indicate that cash flow is also more important than interest rates in promoting investment. Unfortunately, deficit reduction, by initially slowing the economy, will actually reduce demand and hence sales and cash flow (lower sales mean reduced profits and thus lower cash flow).

Even if lower interest rates stimulate investment, they will not do so immediately. Companies cannot devise and execute plans for new facilities overnight. Most econometric models estimate that it takes about two years for lower interest rates to make a significant impression. Any increase in investment will come long after deficit reduction has shrunk the economy.

What's more, recent estimates show that the amount of investment stimulated by lower interest rates is so low as to be of little consequence in affecting total output. In *Investment and U.S. Fiscal Policy in the 1990s*, economist Steven Fazzari concludes that even a 2 percentage point drop in real interest rates (about twice the decline we have actually seen) would increase investment by just over .5 percent, or approximately $25 billion dollars.

Fazzari concludes that even this increase would take two years to be felt. Barry Bosworth found the relationship between interest rates and investment statistically insignificant. But this is hardly news. Many studies over the last decades have made the same conclusions; economists have generally found the effect of interest rates on investment to be small or nonexistent.

Because investment is unresponsive to interest rate changes but captive of downturns in sales growth and cash flow, deficit reduction is not a good strategy to promote investment and productivity growth.

It is even less likely that deficit cuts can induce gains from export growth. Supposedly, this works by lowering the value of the dollar against other currencies, which makes U.S. exports cheaper in world markets. Although interest rates have fallen significantly in recent months, the dollar has actually risen against most major currencies. (This should not be surprising. Economists generally acknowledge that speculative factors can cause large movements in currency prices over the short term. For example, Bosworth argues that it often takes one year or longer for changes in fundamental factors such as interest rates to have an impact on exchange rates.)

The dollar has fallen significantly only against the Japanese yen. In the past, much larger drops in value of the dollar relative to the yen have had only minimal impact on the U.S. trade deficit with Japan. There is little reason to believe the situation will be any different now. Furthermore, Japan, along with most of the rest of the world, is in its own economic slump. This means that demand for all products, including U.S. exports, is likely to be growing slowly, if at all. Recent figures confirm this. The International Monetary Fund recently cut by half its estimate of world growth for 1993-1994. Germany is now forecasting that its economy will shrink 2 percent this year. Anyone waiting for an export boom to stimulate the U.S. economy could be waiting a long time. In any event, as Barry Bosworth estimates, the full impact of exchange rate changes on exports takes about three years. Add that to the year it takes exchange rates to respond to interest rates, and the total lag grows to at least four years.

Of course, even insofar as a lower dollar can stimulate exports, it does so in part by reducing the nation's living standards. A fall in the dollar makes imports more expensive, meaning that the more imported goods people buy, the greater the decline in their purchasing power. The price of domestically produced goods that compete with imports will also rise somewhat, leading to a further decline in purchasing power. Also, any increase in net exports, unlike investment, does nothing to raise productivity and wages.

Experts Agree: Deficit Reduction Hurts

Model	Years in Plan	Deficit Reduction in Final Year (Billions)	Average % Change in GDP Growth	Total Job Loss (Millions)
DRI	4.0	$160	-.4	1.80
WEFA	3.5	281	-2.0	3.40
CBO	5.0	320	-.5	2.50
Michigan	2.0	56	-.3	.25
Fair	3.0	140	-.6	1.35
EPI	3.0	140	-.6	1.40

Sources: DRI-McGraw Hill, Forecasts for the Competitive Policy Council; The WEFA Group, "Macroeconomic Effects of Balancing the Federal Budget by Fiscal Year 1995" (for AFSCME); Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1994-1998"; University of Michigan Research Seminar in Quantitative Economics, "The U.S. Economic Outlook for 1993-4"; Ray Fair, FAIR-MODEL, No.2. (MACRO Incorporated); and author's calculations.

A last possible benefit of a fall in interest rates is increased consumption. If borrowing costs fall, households can afford to buy more, and this may produce a short-term boost to the economy. However, here also the effects are likely to be very limited. It is important to realize that for every borrower paying less interest or getting a cheaper mortgage, there is a lender receiving less investment income. Although borrowers on average may be somewhat poorer and therefore might spend a somewhat higher percentage of their available income, their increased spending will still be largely offset by decreased spending by lenders. Therefore any net increase in spending through this route is likely to be small. And of course, these are demand-side benefits that have nothing to do with the supposed direct effect of deficit reduction on investment and productivity.

Interest rates had already bottomed in the summer of 1992. Many people refinanced their mortgages before rates began to rise again later that fall. These people are not going to be refinancing again just because interest rates fall slightly. Also, as long as people remain anxious about unemployment, they will be reluctant to take on large amounts of additional debt in the form of mortgages or car loans. Although debt has recently dropped slightly, as a percentage of disposable income it is still near a record high. Saving also remains historically low, which makes it unlikely it can fall much further (higher consumption means lower saving, by definition). Consumer confidence is also in the gutter and is likely to remain there as long as job creation is weak and people's employment prospects are unclear. For all these reasons, it is unlikely that lower interest rates will lead to any surge in consumer spending.

In short, the overwhelming body of economic theory and evidence suggests there is a great danger from excessive deficit reduction in the current weak economy. While lower deficits may be desirable in some circumstances, reducing the deficit when the economy is already stagnating is almost guaranteed to worsen the economic situation. The near-term impact is to lower growth and raise unemployment. Any positive effects will not be felt for some time, and the short-run damage done to the economy by weakening demand, with the resulting downturn in investment, may never be offset by any

subsequent increase in investment brought on by lower interest rates.

Furthermore, insofar as deficit reduction is accomplished by cutting public investment (Clinton's 1994 budget actually has less money for public investment than Bush's 1993 budget), there will be a definite long-term cost of lower productivity compounded by the short-term costs of slower growth and higher unemployment.

Any effort to lower the deficit must be carefully calibrated to the current state of the economy. When the economy is strong and near full employment, it will be able to withstand the contractionary impact of deficit reductions without a significant fall-off in growth and job creation. This is not the case today, when the economy is barely sputtering out of a recession and employment levels have been nearly stagnant for three years. The politicians who have embraced deficit reduction on the premise that low interest rates will power a recovery should go back and review their basic economics.

If our current crop of political leaders can't get themselves to review their economics lessons, perhaps they can at least be persuaded to review the lessons of the 1992 election. Ross Perot was the candidate who ran on the platform of bringing the deficit down quickly. Ross Perot didn't win the 1992 election. Bill Clinton did. During his campaign, Clinton constantly emphasized the importance of public investment as the way to get the economy going. In the short-term, additional spending will provide a much-needed boost to demand. In the longer term, investments in infrastructure, education, and training will pay off in the form of a more productive work force. When the economy is again near its full-employment levels of output, and we are beginning to realize the productivity dividend from a better equipped and better educated work force, we can focus on reducing the deficit to free resources for private investment.❖

Citizen Keynes

John Eatwell

WORK DISCUSSED IN THIS ESSAY

Robert Skidelsky, *John Maynard Keynes, Volume Two: The Economist as Saviour, 1920-1937* (Viking Penguin, 1994).

I feel very possessive about John Maynard Keynes. He overshadowed the most formative years of my education. His *General Theory* shapes the way I think about economics.

Though he died in 1946, Keynes still dominated economics at Cambridge in the mid-1960s. It wasn't just that all the leading figures among the faculty, Richard Kahn, Joan Robinson, Brian Reddaway, David Champernowne, Nicholas Kaldor, and James Meade, had been his pupils and/or collaborators. It was the tone of the place. The study of economics, theoretical or empirical, was driven by the desire to improve the conduct of economic policy. This did not mean that pure theory was neglected. Indeed, in those years Robinson was fighting a stirring battle in the realms of high theory with Paul Samuelson and Robert Solow from the Massachusetts Institute of Technology. Nor was Cambridge innocent of the cutting edge of econometric technique. Richard Stone, who, following Keynes's suggestions, had created the first modern national income accounts, was still director of the Department of Applied Economics where much of modern econometrics was pioneered. Nonetheless, we were taught that theory and technique should serve the higher cause of rational economic policies, and to use our newly learned econometric expertise to write essays on unemployment, or inflation, or the balance of trade, or some other topic at the top of the current political agenda.

These reflections were evoked by Robert Skidelsky's description of Keynes the economist in his long-awaited *John Maynard Keynes, Volume Two: The Economist as Saviour, 1920-1937*:

> His achievement was to align economics with changes taking place in ethics, in culture, in politics, and in society. . . . In his big books he was the pamphleteer trying to rein in his imagination, school himself to the demands of a formal treatise. He had powerful intuitions of logical and historical relationships. . . . As with all original minds, Keynes's intuitions were never fully captured by his analytical system. (pp. 424-425)

And, Skidelsky tells us, Keynes was also practical, absorbed in questions of economic policy, argumentative, benevolent and intolerant, often rude, and had an intellectual arrogance that would allow positions previously held with great passion to be calmly abandoned. Well, that is exactly what the Cambridge faculty was like in the 1960s. Not only did the ghost of Keynes dominate the content of economics education at Cambridge, it also dominated the style. That style could be sustained with substance only by the extraordinarily gifted. So it is not surprising that the Cambridge faculty, although still very "Keynesian," looks much more conventional these days.

A great achievement of the magnificent second volume of his biography of Keynes is the way Skidelsky conveys Keynes's character—what it was like to know him. I have always been somewhat puzzled by the 1930s newsreels in which Keynes pontificates on economic matters of the day. That awful upper-class voice and the patrician manner are distinctly off-putting today. Yet Keynes inspired great affection among his wide circle of friends. Many of my teachers had known him, and despite their diverse economic and political opinions, knowing Keynes had clearly been one of the most important aspects of their lives. Skidelsky makes it clear why. Keynes was enormously exciting to know. His mind was both precise and wide ranging. He was both practical and fanciful. He believed that the power of rational thought could secure freedom and the good life, not a common view in the 1930s. So in times of national and international economic crisis, he gave his friends hope. Economic disaster would not destroy civilization. Maynard would make sure of that.

Any life of Keynes must be an intellectual biography. For despite his wide-ranging activities in politics, in business, and in the arts, Keynes was essentially an academic, albeit an extraordinary one. It was his ideas, and his ability to persuade others to accept them, that mattered. Skidelsky handles the intricacies of theoretical argument with remarkable skill. Still, readers must be prepared to put in some hard work on economic theory.

Woven into Skidelsky's intellectual and historical narrative is a beautiful love story: the relationship between Keynes and the Russian ballerina, Lydia Lopokova, whom he married in 1925. Lydia brought gaiety and unfailing emotional support, and she opened up for Keynes a new world of ballet and theater. Keynes helped fund the start of the Camargo Society in 1929 to assist Lydia's dancing career in Britain. In due course, and not without difficulty, the Camargo Society would evolve into the Royal Ballet. (Not, as Skidelsky writes,

the English National Ballet. That is a quite different organization.) In the 1930s Keynes built the Arts Theatre in Cambridge to assist Lydia's moderately successful transition from dance to acting. It opened in the same month that *The General Theory of Employment, Interest and Money* was published, February 1936.

Ultimately, this volume of Skidelsky's biography must be judged by his presentation and analysis of the genesis, the argument, and the importance of that book. On the genesis of the *General Theory*, Skidelsky's narrative is excellent. From the achievement of international fame with his critique of the follies of the Paris peace conference in *The Economic Consequences of the Peace* in 1919, Keynes was always struggling to build the intellectual foundations of a rational economic policy from the tools of economic theory. Skidelsky's skill in blending together contemporary economics, politics, and ongoing intellectual controversy in a variety of disciplines, together with a cast of characters ranging from Asquith to Diaghilev, from FDR to Wittgenstein, from Lloyd George to Virginia Woolf, all in a beautifully written narrative, is simply superb.

As to the substance and importance of the economic argument, here Skidelsky is less convincing. For one thing, he is not entirely sympathetic with Keynes, and certainly not with "Keynesianism":

> Has any major economist so affronted the method and style of his discipline? Only his genius and the desperate character of the times enabled him to get away with it—and then only to a minor extent. For today, in truth, there is little left of Keynes's vision, only some crumbling bones of scholasticism, disinterred for first-year macro-economics students. (p. 502)

There also are numerous references to the "dangers" arising from the application of Keynesian ideas in post-World War II policymaking. More important, Skidelsky's narrative fails to fully convey just why Keynes, clearly at odds with the policymakers of the day, was such a threat to economic theory. Consequently, the significance of Keynes's ideas for economics and economic policymaking today is left obscure.

Keynes's Theory of Employment

The proposition in standard economics that prices are determined by the relationship between supply and demand is at once a theory of value and distribution and a theory of output and employment. In the economist's equilibrium state, a rendezvous between supply and demand determines the correct price, as well as the equilibrium composition of output and the economy's total output. In equilibrium, the economy is supposed to absorb the available supply of labor, since wages are just another price balancing supply and demand. But if the claim that Keynes makes in the *General Theory* is true and the economy settles into a long-run equilibrium at less than full employment, if the market for labor does not clear, then it cannot at the same time be true that prices are determined by the relationship between supply and demand. The entire edifice of economic theory erected since the late nineteenth century and taught in every economics department throughout the world is

false. That is the scale of the threat posed by the *General Theory*.

Today orthodox economics accepts Keynes's critique of the self-regulating market mainly by acknowledging that the market economy may deviate from its normal equilibrium in the short run, and so display Keynesian characteristics, while in the long run, normal, full-employment equilibrium will be restored as the prices eventually adjust to equilibrium levels.

This orthodox rendition of Keynes seems to accept his insights, while neatly preserving the basic elements of supply-and-demand theory. A centerpiece of this revisionism was the work of J.S. Hicks, familiar to students of macroeconomics as the "IS-LM" model. Hicks's gloss on Keynes, first published in 1937, holds that the market economy fails to attain full employment mainly because money wages are "sticky." That is, they fail to adjust immediately to real changes in economic conditions. Since labor costs are a principal ingredient of product costs, sticky money wages keep up prices too, and so ensure a high demand for money for transactions purposes, in turn keeping interest rates high. If only money wages would fall, the demand for money would fall too, interest rates would come down, and the decline in interest rates would stimulate an increase in investment, raising output and moving the economy toward full employment.

This rescue of the classical model from the Keynesian challenge is the essence of the so called "neoclassical synthesis," ingeniously combining the practicality of Keynesian monetary and fiscal policy in the short run, while preserving the full-employment equilibrium of orthodox supply-and-demand theory in the long run, and thereby preserving the classical model. Keynes's message is reduced to the traditional case that unemployment is due only to a failure of prices—in this case wages—to adjust instantaneously to an equilibrium.

By the 1970s, when stagflation hit the world's advanced economies, the neoclassical version of Keynes opened the door to a full retreat and the resurgence of pre-Keynesian economists led by Milton Friedman-style monetarists. Active monetary or fiscal policy was, so the monetarists argued, doubly foolish. It not only ignored the fact that the economy under the normal workings of the market would in the long-run gravitate to a full-employment equilibrium. Activist macroeconomic policy also reinforced the imperfections that were the source of the problem in the first place.

For example, if sticky money wages were causing unemployment, fiscal or monetary policies designed to expand the economy would simply increase workers' bargaining power and make things worse. How much more rational to take steps to weaken workers' bargaining rights, thereby "unsticking" the money wage and garnering the fruits of an efficient free market. In the 1980s, so-called "supply-side" economists took further advantage of the theoretical weakness of the neoclassical synthesis, arguing for cuts in those taxes (taxes on the better off) and benefits (benefits to the poor) that were distorting the working of the free market.

In the face of these arguments, many Keynesians took refuge in a market

imperfection noted by the master, "uncertainty," which could not be wished away (though the theory of rational expectations would soon attempt just that). If economic life is so riddled with uncertainty that the very notion of systematic laws of motion is simply absurd, then no "tendency" toward full employment is there to be found. This was certainly one strand of Keynes's own view, but hardly the most important one. Skidelsky, however, tends to favor this interpretation of the *General Theory*, resting his case strongly on Keynes's famous article in the *Quarterly Journal of Economics* of 1937, and the assertion there that:

> we have, as a rule, only the vaguest idea of any but the most direct consequences of our acts. . . . Thus the fact that our knowledge of the future is fluctuating, vague and uncertain, renders wealth a peculiarly unsuitable subject for the methods of classical economic theory . . . I do not mean merely to distinguish what is known for certain from what is probable. . . . The sense in which I am using the term is that in which the prospects of a European war is uncertain, or the price of copper and the rate of interest twenty years hence. . . . About these matters there is no scientific basis on which to form any calculable probability whatever. (quoted by Skidelsky, pp. 616-617).

This reading of Keynes suits Skidelsky nicely, for it has a conveniently anti-interventionist double edge. If markets have less than perfect knowledge, so do governments. Unhappy with the possibility that the *General Theory* might make the case for active fiscal and monetary policy to secure full employment, Skidelsky persistently emphasizes the need to take only that action that secures and maintains the confidence of the markets and of business community—maintaining the stability of convention. Curiously, this was the case made by the British Treasury in 1930 *against* a Keynesian public works program to alleviate unemployment.

To be fair to Skidelsky, the diminution of the economics of the *General Theory* either to a catalog of market failures or to a world dominated by uncertainty is, it must be admitted, due in no small part to weaknesses in the structure of Keynes's original argument. Keynes's theory is seriously weakened by the inclusion in its core of a key relationship borrowed from orthodox theory he was attacking: the idea that the quantity of investment is determined by its price—the rate of interest.

The relationship between investment and the rate of interest (as the rate of interest falls and investment rises, and vice versa) was a fundamental part of the orthodox theory of output, known technically as the demand function of investment. Once Keynes had accepted that as the rate of interest falls, aggregate investment increases, then his whole theory rested on the question: Why doesn't the rate of interest fall to a level that will induce enough investment to produce full employment?

Keynes's answer was that the rate of interest was determined in the financial markets, and there is no reason why it should necessarily gravitate to the

requisite level. It was not a very convincing answer. This was the weakness Hicks would exploit. The demand function for investment (which Keynes called the marginal efficiency of capital schedule) was the Trojan horse that allowed the forces of his enemies to attack the very heart of Keynes's case for an under-employment equilibrium and hence for active government.

It was one of Keynes's closest collaborators who solved the dilemma. From 1936 on, Joan Robinson had argued that if Keynes was right about the determination of employment, then orthodox theory must be wrong about the determination of prices. In the mid-1960s she at last found a way of sustaining her argument. The high theory debates that she and others conducted with the more orthodox theorists of MIT reached an agreed conclusion when Paul Samuelson was forced to concede that there was no logically consistent way to construct a demand function for capital outside the artificial confines of a one-commodity world (see the symposium on paradoxes in capital theory, *Quarterly Journal of Economics*, 1966). This, in turn, means that it is not possible to formulate a logically consistent theory of the long-run normal rate of interest; hence no consistent theory of long-run prices *or of output and employment* is possible either. Building so-called Keynesian models on the basis of market failure no longer makes sense—there cannot be a short-run deviation from a long-run equilibrium that is not there in the first place! In one stroke the critical task in which Keynes had failed was accomplished, and the marginal efficiency of capital schedule was swept away too. What was left was the part of his theory that Keynes himself had regarded as his truly original contribution—the principle of effective demand.

Demand and Investment

The principle of effective demand states that output is determined by the combination of those expenditures that are relatively autonomous of the level of income and those expenditures that are induced by the level of income. At the simplest level investment is autonomous, set free from dependence on current income by the flexibility of modern financial institutions, which can provide entrepreneurs with the funds required to implement their investment plans (or can be a means of confining investment to financial assets, avoiding any commitment to real activity). For example, if an entrepreneur has a convincing prospect of profit he or she can borrow the funds to hire the workers needed to launch the project. An investment induces successive rounds of consumption spending until the injection of new spending leaks into savings. Investment, via this multiplier effect, determines total demand and hence determines the level of national income and of savings.

But what determines investment? Shorn of a mechanistic demand function for investment, the issue is open. It is clear that a satisfactory explanation of why Britain and the United States invest around 17 percent of gross domestic product, Germany and France around 22 percent, and Japan nearly 30 percent will rest on more than simplistic analyses of impact of differences in the rate of

return. The role of the state, corporate organization, the relationship between finance and industry, industrial structure, the rate of technical progress, the pattern of labor relations, domestic and international competition, the confidence of the money markets, and perhaps as important as all of these, the stability of "convention," all have a part to play. In other words, the process of accumulation is a complex institutional, historical, and analytical problem. The "openness" of Keynes's theory at the point of the determination of investment enables the incorporation of these factors into the theory. Keynes himself excelled in the fusion of all such dimensions into his theoretical narrative.

Indeed, one vital element in his interpretation of the *General Theory* that Skidelsky gets spectacularly wrong is his assessment of the role of institutions in Keynes's theory of employment:

> What is missing is history and sociology. . . . The psychological "propensities" are data. They are equipment which "agents" bring to their decisions. Their roots in events or social systems are unexplored. There is no mention of the Great War, political and currency disorders, the changing balance between capital and labour, all of which might plausibly be called *causes* of the great depression. The social system, as Keynes puts is, is 'given'—outside the model. Ethics and science have always given Anglo-Saxon economics its cutting edge: they are the two blades of its scissors. They are responsible for its greatest achievements and also its single biggest blindspot: neglect of the institutions through which people act. Keynes was in this tradition. (pp. 543-544)

Skidelsky is right about the orthodox Anglo-Saxon theory of prices, output and employment. He couldn't be more wrong about Keynes.

The institution-less world is a particular characteristic of the neoclassical theory that dominates academic economics and, indeed, virtually all present-day economic thinking. In the perfectly competitive model that stands at the very core of neoclassical theory, institutions are imperfections. The market there defined contains none of the institutions of which actual markets are necessarily composed: the structure of corporate and labor law, the conventions that dictate so much of market behavior, the relationship between finance and industry, and, most important of all, the monetary and fiscal institutions of the state.

Keynes the Institutionalist

All these are necessary elements at the core of Keynes's theory of employment. It is, for example, simply not possible to construct Keynes's principle of effective demand outside the institutional framework of a modern capitalist economy, with fully developed, flexible financial institutions and a government that issues monetary instruments. Moreover, all those elements that Skidelsky cites as "given" are themselves susceptible to separate determination by a variety of factors, historical and sociological, outside the formal structure. This stands in

sharp contrast to orthodox theory in which "tastes" and "propensities" are necessarily embodied in the axiomatic specification of the model.

The application of Keynesian economics to policy in the post-World War II era has been accordingly an exercise in institution building, internationally and nationally. In the international economy the price mechanism, operating through either the classical gold standard or flexible exchange rates, was one of the factors Keynes identified as having created and perpetuated instability and depression in the 1930s. In its place, partially influenced by Keynes, the 1944 Bretton Woods conference constructed a framework of fixed exchange rates, hedged around with exchange controls, and added a variety of other measures designed to create an international environment supportive of national full-employment policies. In the domestic economies of what was to become the Organization for Economic Cooperation and Development (OECD) the state assumed responsibility for the pursuit of full employment. State activity in every economy increased to levels never before experienced in peacetime. Monetary and fiscal policies were now judged in terms of their impact on employment. Of course, the degree of Keynesian intervention and the new institutions varied from one country to another. But, strikingly, policymakers no longer perceived employment as reflecting the unrestricted operation of markets. Instead, the market had to operate within an institutional framework dedicated to securing full employment by the manipulation of effective demand.

The years from 1950 to 1970 were a golden age of modern capitalism. All the major capitalist countries grew faster for longer than ever before, or since. But in the last 20 years, the OECD countries have not been able to recover the performance of those years. In virtually all the major countries, trend growth rates have been at most half the rate of those enjoyed in the golden age. Average rates of unemployment in the major industrial countries have risen sharply, especially since 1979, and both national economies and the international economy have become far less stable. Today high levels of unemployment in America are contributing to the decline in the fabric of society. In Europe unemployment is threatening social stability, even democracy itself, in both the east and the west of the continent. In Japan rising unemployment is compounding the difficulties of reforming a corrupt political regime.

The commonality of the deflationary experience throughout the OECD overwhelms the particular circumstances of individual countries. This suggests that policies that focus on the national competitiveness, such as investments in training or research and development, while important, are not totally up to the task of securing full employment. For if the overall rate of growth of demand in the G7 countries does not increase, enhanced competitiveness in one country simply ends up "stealing" jobs from another country. What is needed is a general expansion that raises the rate of growth and levels of employment throughout the OECD.

The expansionary lead can only come from the United States. This claim

may engender incredulity: Isn't the United States heavily in deficit and in debt? Isn't fiscal contraction the order of the day? In truth, the United States seems eminently capable of funding its domestic and foreign borrowing at current low interest rates and at the current exchange rate. In these circumstances it is possible to tackle the twin deficits by a mixture of expansion and policies designed to enhance competitiveness. Increased government investment, particularly that which encourages increases in private investment, could result in a higher level of activity, a current account deficit of roughly the same size as at present, and a sharply reduced fiscal deficit as the private sector moves toward balance. The alternative strategy of lowering spending could, by complementary falls in private sector spending, result in roughly the same deficits as there are now but with lower growth and higher unemployment.

Of course, as Skidelsky would no doubt argue, much depends on the impact of an expansionary strategy on private sector confidence and hence on private sector investment behavior. In his pamphlet *The Means to Prosperity*, published in 1933, Keynes urged that government spending should be divided into capital and income accounts. This eminently sensible proposal, which would require that funds raised should also be appropriately apportioned between the two accounts, is typical of the accounting procedures of any well-run business. It would be a sensible reform today. If nothing else, it would demonstrate financial prudence while at the same time fund necessary expansionary spending. Balancing the budget for current consumption, alongside borrowing on capital account to finance investment, is a rational and efficient strategy. So long as the social rate of return on public investment is higher than the net cost ("net" after taking account of taxes generated and reduction in unemployment rolls) of any borrowing used to finance it, then the ratio of debt to national income will not rise.

An expansionary policy pursued by the United States, and allied with institutional reforms in the international financial system to support expansionary policies within the other major industrial countries, could return the West to full employment, with all the attendant benefits that would bring, not just in real output but also in reduced poverty, crime, and ill health. It would also accelerate inflation.

Dealing with the Inflation Peril

It may seem perverse in these deflationary times to harp on the possibility of accelerating inflation. But there is no doubt that sustained expansions in the major industrial countries would increase inflationary pressures. Throughout the slow-growing 1980s, real wages have stagnated or even fallen in America, building unfulfilled consumption demands that would be unleashed in a tighter labor market. In addition, coordinated world expansion would inevitably set off an upward movement in world commodity prices that are now lower than at any time since the early 1970s. But the threat of inflation is no reason to accept permanent recession. It is rather a challenge to our ability to build suitable institutional arrangements that mediate the inflationary pressures—which, after all, stem from a desire of workers and commodity

producers to gain a larger share of the cake that their efforts help to produce. It is in the interests of all that an effective non-inflationary framework is created. Surely, in the presence of clearly recognized mutual self-interest, there is a rational solution to even the most complex economic problem.

The same mutual self-interest exists between the newly industrializing countries of the Pacific Rim and the G7. Until the early 1980s the major industrial countries had balance-of-payments surpluses with the burgeoning economies of the Far East, indicating that trade was creating, not destroying, jobs. In the mid-1980s the G7 moved into deficit with the new industrial economies of the Far East, but even so, since growth in the G7 was constrained by internal policy decisions, not by balance of payments considerations, the competitiveness of the new Pacific Rim industries cannot be blamed for current unemployment. If there were to be a growing trade imbalance between the old and new industrial nations, then that could be a barrier to growth in both groups. Once again the accumulation of debt on one side of a trading partnership is in no one's interest. Suitable policy (that is, institutional) steps are required to boost the growth of trade in both directions, while sustaining broad multilateral balance.

Keynes and Employment Policy Today

Skidelsky's beautifully structured narrative paints a picture of a man seeking to fashion the intellectual and practical tools to rescue the market economy from its own vices. For Keynes unemployment could never be a "natural" disaster, like an earthquake or a flood. He knew that it is a failure of social and economic organization, a failure by society and social institutions to achieve a desirable goal. Quite simply, when millions of people are out of work, we have failed to organize our society so that full employment is secured. And being a problem of social organization, there must be a solution if only society is willing to take the steps necessary. This doesn't mean that either finding or implementing a solution will be easy. Our society and our economy are complicated institutions, linking a multitude of firms and people at home and abroad, each with their own goals and their ways of doing things. Moreover, achieving full employment may conflict with other goals we consider to be important. But it is irrational simply to accept unemployment, as if it were a fact of nature. Unemployment is our failure. At the very least, we must spell out clearly the choices that must be made if we are to attain full employment.

There never will be a single, neat "solution" good for all time. The very dynamism that is the success story of capitalism creates not only the potential for greater prosperity but also new problems that must be solved if that prosperity is to be attained. Keynes's extraordinary achievements derive not only from his intuitive genius but from the fact that he recognized the force of changing circumstances and focused on the ends of economic policy, never the means. He never allowed conventional theory or orthodox thinking or vested interests to stand in the way of his practical goals—freedom, civilization, and the good life. ✧

Can Markets Govern?

Roberta Lynch and Ann Markusen

"It's time to make our government work for the people, learn to do more with less and treat taxpayers like customers," according to Vice President Al Gore's report *Creating a Government that Works Better and Costs Less*. That sentiment springs almost full-blown from *Reinventing Government*, the surprise best-seller by David Osborne, a journalist, and Ted Gaebler, a local government consultant. On the thorny problem of government responsiveness, this book dominates the contemporary discourse.

What ails the government, Osborne and Gaebler argue, is public sector "monopoly"; their remedy is to inject government at all levels with competition, substituting market mechanisms—such as contracting and vouchers—for public service provision. Their book addresses a nonpartisan audience and has been well received on the left and the right, to the point of eclipsing more thoughtful books like *Breaking Through Bureaucracy*, by Michael Barzelay.

Why has *Reinventing Government* become a bible for politicians and policymakers? In large measure, the answer lies in widespread disaffection with the performance of government. Ronald Reagan and his disciples fomented cynicism about government's capacities and fears about its intrusiveness. But Reagan was merely tapping into latent public frustration. People are angry that government has failed to meet public expectations, especially given the collective memory of a time when it seemed nearly to do so.

Yet even as citizens bemoan the ineffectiveness and rising cost of government, they still ask it to address virtually every social ill. Many Americans assume a standard for government conduct that they would rarely demand of a

WORKS DISCUSSED IN THIS ESSAY

David Osborne and Ted Gaebler, *Reinventing Government* (Addison-Wesley, 1992).

Michael Barzelay, *Breaking Through Bureaucracy* (University of California Press, 1992).

private business. To a considerable extent, it is this tension between expectations and performance—often exacerbated by the exorbitant promises campaigning politicians make—that has led to frustration with government.

Osborne and Gaebler propose to resolve these tensions through a 10-step program reminiscent of the 12-step programs prevalent for righting personal crises. With the same kind of anecdotal evidence that characterizes best-selling self-help manuals, they vividly recount horror stories of dysfunctional government programs. For all who have experienced the irrationality, turpitude, or infuriating rigidity of one public agency or another, *Reinventing Government* provides both affirmation and apparent remedy.

Part of the book's cachet is that it has won endorsements from across the political spectrum. Indeed, the authors explicitly set out to establish a "new paradigm" that transcends traditional political distinctions. But this unusually inclusive chorus of support has stifled serious critique of *Reinventing Government*'s central themes. The core idea—one that begs for careful scrutiny—is a claim that it is possible to transcend the very nature of politics.

Rather than arguing, as progressives long have, for fostering greater democracy in the workings of private enterprise, the authors instead advocate the marketizing of government itself. Permeating their work is a profound pessimism about the possibility of citizens acting in concert to direct governmental activity, or of public sector managers and employees revitalizing bureaus from within. Their tenets—their sanguine assessment of the efficacy of markets, their preference for competition over cooperation and internal renewal, and their pessimism toward democratic governance—all overreach.

The Diagnosis and the Cure

Osborne and Gaebler argue that contemporary government's central problem is its bureaucratic nature, which renders it inflexible and inefficient. In their alternative model, government should become "catalytic," steering rather than rowing the boat: it should not produce services directly but fund private sector delivery while continuing to set policy.

The heart of their complaint is that public employees exercise a "monopoly" on service provision. The civil service, they argue, makes it virtually impossible to transfer or fire employees, thus hampering any programmatic change. When a police department, for instance, wants to shift toward a community-friendly approach, it is "stuck with" police officers trained in apprehending criminals rather than in helping communities "solve their social and economic problems." Only by shifting service delivery to private entities that have the flexibility to dispose of employees without cumbersome procedures can government break the lock that its workers now have on program structure, Osborne and Gaebler conclude.

The authors argue that competition is essential to motivate public employees. Thus where services are not privatized, an ever-present threat of privatization is necessary to force the public entity to perform more efficiently. Where privatization is unlikely, they suggest new structures to stimulate competition among various elements of a public entity, such as public school choice.

Continuing their market analogy, Osborne and Gaebler characterize the user of a government service as its "customer." Ultimately, they argue, the only means of guaranteeing quality from either a public service provider or a private contractor is ensuring that the customer has a choice. Customers, they say, will choose that which best meets their needs. Providers failing to satisfy them will not long survive.

Extending their reconceptualization of government in business terms, Osborne and Gaebler propose governments consider relying more on fees than taxes, and investing their resources so that they are "earning rather than spending." And where the market metaphor weakens, as in the provision of social services, Osborne and Gaebler call for "empowering" communities by shifting service delivery from public agencies to nonprofit organizations. They postulate a sharp dichotomy between bureaucratic government programs that provide services to people—and thus foster dependency—and nonprofit agencies based in communities that "care" and empower people.

Finally, *Reinventing Government* argues that it is possible for governments to do more with less, allowing for significant downsizing. Moreover, they conclude, political conflict is one of the key barriers to efficient government. The challenge for "entrepreneurial" leaders is to find a way around the traditional political structures and to create a new service delivery paradigm. If they do, they will be able to solve problems such as education, crime, and health care without significant additional resources.

Reinventing Government's Logic and Method

Osborne and Gaebler write with such zest as they zing from argument to example and back again that it is easy to miss troubling gaps in their logic and their less-than-rigorous marshaling of evidence.

Take *Reinventing Government's* central argument that government should separate steering (policy setting) from rowing (direct service provision). First, Osborne and Gaebler assert that public institutions cannot have flexibility if "policy makers can use only one method—services produced by their own bureaucracy." In fact, there is not now—and hasn't been for many decades—a level of government that relies on only that one option. Government has long contracted out tasks ranging from military research to information systems to child protection. Yet Osborne and Gaebler set up the straw man of one-option government service provider to argue that government cannot function effectively *unless* it contracts out. The fact that they go on to claim that they do not necessarily favor privatization in every instance does not negate the force of this opening argument.

Furthermore, in their zeal to make their case against the power of public employees, the authors greatly overstate the rigidity of public sector operations. In practice, despite the presence of civil service rules and labor unions, governments have made massive programmatic shifts, ranging from the closures of hundreds of mental institutions in the last two decades to the military base closures under way today. Tens of thousands of employees have been retrained to take on revised responsibilities. And new programs have been

mounted to respond to emerging social problems—AIDS, for instance.

Ultimately, the book's entire architecture rests upon the construct of public sector as monopoly. In attempting to make this analogy with the private sector, however, the authors profoundly misconstrue the essential difference between a market economy and the public sector. In the United States, citizens developed an aversion to corporate monopolies because they led to predatory practices, collusion to keep prices high, and suppression of innovation. Only competition could force such firms to lower their prices and/or improve product quality; in its absence, government regulation was needed.

But the analogy between government and firms doesn't hold water. Since the public sector is not driven by the same profit motive—citizens' priorities are different from stockholders'—it has no inherent reason to price its services more expensively. Private sector bureaucracies will reform only to the extent that they must to remain profitable. Public sector bureaucracies face a more complicated challenge. Their responsibilities are diffuse and often inherently unprofitable. Their mission is to achieve defined social goals, not merely to improve the bottom line. They are disciplined not by consumer sovereignty but by the value the polity places on particular goals. Competition may have its uses in the public sector, as it does in many human endeavors, but it is not the central disciplining feature of public enterprise.

Shipwrecked Metaphor

Of all *Reinventing Government*'s clever aphorisms, "Government should steer and not row"—a catch-all for contracting, vouchers, and the market-knows-best approach—is probably the most oft-cited. But its catchiness belies a seriously flawed argument for marketization, as well as a naivete.

Osborne and Gaebler view public servants as rent-seeking bureaucrats whose interests inevitably collide with those of the community. But the wall that the authors erect between public employees and the citizenry is artificial. Most public employees are not indifferent paper pushers. They are cops, firefighters, nurse aides, teachers, and engineers. Many came from or live in the communities they serve. Throughout their ranks are those who forgo financial or status rewards because they believe in the mission of public service.

Moreover, Osborne and Gaebler's empirical evidence is spotty. It bears noting here, since they fail to, that many public enterprises are quite successful, even innovative. Public universities such as California and Michigan best Harvard and Princeton in more than a few areas. Public utilities have provided power and water at cheaper prices than private utilities and without the regulatory costs. More important, Osborne and Gaebler do not confront the more troubling instances of government steering. The Pentagon, for example, has for some time contracted out weapons development and production, and the results have hardly been salutary. Cost overruns have been enormous and chronic; corruption is rampant. Still, despite convictions and huge fines, no major contractor has gone out of business in the postwar period. Some, like Lockheed, had to be bailed out.

Contracting out is no guaranteed formula for efficiency. In most cases, only

a small number of bidders compete, creating a less than fully competitive situation and vast potential for monopolistic profits. Absent considerable rigor, the potential for bid-rigging and other forms of corruption remains. Total costs to the public sector may actually rise, because private contractors demand profits and even "steering" still costs the government money.

Nor are vouchers a panacea for ungainly bureaucracy and mediocre institutions. Take worker retraining, which works essentially as a voucher program. Private institutions such as cosmetology schools and secretarial "colleges" currently provide over 90 percent of worker retraining. Abuses in this (unregulated) sector are notorious—misleading recruitment practices, failures to return tuition when courses are discontinued, bait-and-switch promises about job placement. Medicaid is essentially a voucher system, but its low-income recipients have a dwindling pool of doctors and routinely receive shoddy care.

In celebrating facile market solutions, Osborne and Gaebler miss the boat. Rather than addressing the fundamental problems of governance and government in our society, they turn to the chimera of contracting out and privatization, which at best will only displace these problems to new forums.

It's easy to see why private business groups and many politicians might be enthusiastic about the *Reinventing Government* prescription. For politicians, contracting out frequently decreases government accountability and provides insulation from the kind of media scrutiny and citizen feedback that enhances democratic participation. For all of the flaws in government service provision, citizens feel far more ownership, and therefore demand far greater responsiveness, from a government agency than from a private business.

Contracting out lets political leaders evade the anger people feel when government fails them. The media show far less zeal in tracking down private contractors and scrutinizing their operations; private firms' proprietary information is much more difficult and expensive to investigate. This is one of the prime attractions that contracting out of particularly difficult social problems—child abuse, mental illness, or drug rehabilitation—holds for politicians.

What's more, contracting out often offers a way to bypass fair standards. Minority groups and public sector unions have helped create a work force that has a higher proportion of women and minorities than the private sector; that pays a living wage; offers reasonable, if moderate, health care and pension benefits; and is protected against arbitrary firings. Increasingly, private sector firms whose aims are securing public sector contracts are relying on low-wage, no-benefit policies to give them the competitive edge. As privatization increases, it could well have even wider impact, serving to sanction labor force practices that reinforce private companies' efforts to cut labor costs and renegotiate the social contract.

In their zeal to propagate market solutions, Osborne and Gaebler all but ignore the checkered record of private enterprises. Giant firms fail to pay their taxes, cheat on government contracts, bilk their customers, make false advertisements, and more. Nor are private corporations perfect models of efficiency.

The business pages are full of tales of the waste and mismanagement at companies like GM and IBM—despite the intensely competitive terrain on which they must operate.

Conversely, there is much to be said for the accountability and durability of public sector service providers. Their books must be open, and they must abide by a set of procedures designed to discourage corruption, favoritism, prejudice, arbitrariness. They cannot go out of business overnight, leaving customers dangling. They can provide continuity of knowledge and skill, and they have structural incentives to plan better for the long term. Private sector contractors eyeing the bottom line are less apt to perform well on these criteria.

Privatization as Empowerment

When Osborne and Gaebler do not rely on the vocabulary of markets, they evoke progressive concepts. "Community empowerment" once meant ensuring that every community and constituency had full and equal access to the political process and thus an equivalent voice in government. But Osborne and Gaebler co-opt the concept as an argument for contracting out to nonprofit agencies. They set up dichotomies like "professionals offer 'service,' communities offer 'care.'"

This sounds attractive, yet there are at least three flaws to the community-does-it-better argument. First, we are witnessing the decline of identifiable geographic communities, with internal commonalities and external distinctions. Urban neighborhoods, suburbs, and small towns across America are increasingly fragmented, lacking any identifiable voice speaking for the whole. Second, who decides who the community is? Does it consist of all people living within a certain jurisdiction, or does it consist of a group of self-identified people, often with professional leadership? In practice, it is usually the latter, and in these instances, it is difficult to ascertain whether all members of the locality have access to the service and receive equal treatment. Self-declared communities run the risk of corruption, abuse, and exclusion.

Third, such agencies are not necessarily the paragons of caring and empowerment that Osborne and Gaebler so glibly portray. Some have proven far from immune to the lure of political patronage—using jobs to further their influence in their communities and using their community clout to win contracts from elected officials. Some have garnered as much notoriety as any government agency for mismanagement, graft, and programmatic failures. And some function much more as overseers in their communities, squelching political dissent, than as empowerers of community activism.

Nonprofit agencies and community-based organizations can play a significant and beneficial role in the provision of human services. But the inconsistent quality and accountability of such arrangements hardly justify the lopsided preference that *Reinventing Government* affords them.

Despairing of Democracy?

Oddly absent from the book is an understanding of why we need a public sector at all. Government provision of services evolved historically because the

market cannot handle certain social functions—defense, education, land use planning—without risking serious damage to the polity. In many cases public provision involves what we call "public goods," those items that are most efficiently produced for all because they possess large economies of scale and are not excludable—if you provide them for one citizen, everyone else can have a free ride. And taxes, rather than individual fees for service, fund public enterprise because we have deemed it a positive value to socialize the costs of those activities essential to the common good.

In the pages of *Reinventing Government*, the idea of Americans as citizens completely disappears, and in its place emerge the atomistic customer and the amorphous, lumpy "community." Putting power in the hands of either customers or communities is the basis on which Osborne and Gaebler propose to transform government. But identifying the customer or the community is not so simple a task. What community is a board of education supposed to be serving and who are the customers? Parents? Taxpayers?

This focus on the user of a particular government service as customer fragments the society into units that undercut the notion of a commonweal. The authors thus evade the difficult questions that arise when one extends the notion that the "customer is always right" to its logical conclusion. What happens, for instance, when the needs of particular customers conflict with the greater public good? Osborne and Gaebler contend that transportation departments are not sufficiently responsive to their customers—drivers of private automobiles—who have an almost insatiable desire for improved roads, new roads, toll-free roads. Yet more highways may be at odds with society's desire to curtail pollution, with the need to develop efficient mass transit, or with demands for other kinds of public services.

And what happens when there aren't enough customers to make a particular service sufficiently "profitable"? Should an el line in Chicago be closed down because it runs in the wee hours of the morning when few want to take public transportation, even if those few are precisely the people who cannot afford any other means of transportation? What if that el offers their only means of getting to a job that keeps them off welfare or the unemployment lines—thereby reducing costs to another arm of government?

These issues are at the heart of the democratic process. While the notion of customer may have its uses in structuring the delivery of certain public services, it cannot hold up as the defining unit of social organization. The resolution of the conflicting claims of *citizens*, not customers, is the essence of democratic governance. There can be little doubt that politics has become too much of a spectator sport or that political contests have become too much the province of high-tech salesmanship and big-money contributions that weight legislative deliberations toward the wealthy. But these distortions of the process demand a serious strategy for reform, not the cynicism of *Reinventing Government*.

Their jaundiced view leads Osborne and Gaebler to overstate the divorce between politics and governmental operations. They allege that the "ultimate test of government is not performance but reelection." Politicians get reelected on how voters perceive them, not on how well their government provides

services, or so they say.

But of course elections are the prime form of competition in the public sector. While voters may not carefully scrutinize the operations of each and every governmental agency, there can be no doubt that for state and local elected officials in administrative offices, the provision of services is indeed a central issue in most elections.

Elections provide another incentive for efficiency that eludes Osborne and Gaebler—voter concern with levels of taxation. Asserting that government has unlimited resources, the authors seek to portray a public sector with bottomless pockets and thus without inducement to mend its wastrel ways. The reality is very different. Compare the average corporate office suite, with its richly appointed furnishings, with the oddly matched decor of the office of even high-ranking public officials. Compare further the astronomical salaries and bonuses of corporate executives, with the wages of those in the public sector. The deep pockets are all on the business side. As Derek Bok's recent book, *The Cost of Talent*, documents, real salaries of public managers have steadily declined relative to private ones.

For all its flaws, the democratic process still offers the average citizen a powerful tool to shape public goods provision. Some run for office, others are run out. You would not know, reading this book, that millions of Americans turn out for school board meetings and are intimately involved in decisions about land use, environmental protection, and waste disposal in their communities. The authors, in embracing a slightly more liberal variant of public choice theory, favor "exit" over "voice" as a form of public accountability. The unhappy public service consumer, rather than voting, lobbying, or organizing politically to improve service performance, could jump ship and sign up elsewhere. By essentially abandoning hope of revitalizing the democratic process, Osborne and Gaebler fail to grapple with the critical questions of how decisions can be made in our complex society in ways that restore public confidence in government and that foster greater citizen participation.

Breaking Through Bureaucracy

There is, clearly, a need to revamp government. If *Reinventing Government* is not the solution, what is?

A superior approach to public service improvement would tackle the harder work of facing what lies below the boat metaphor. It would certainly incorporate some of the reforms advocated by Osborne and Gaebler, many of which are already under way around the country: quality improvement programs, introduction of technologically sophisticated systems, a clear definition of mission, and reduction in burdensome regulation and paperwork. But real reform must embrace two more fundamental restructuring strategies: employee empowerment and citizen involvement. Democracy—not markets—is at the core of both these efforts.

Unfortunately, the Osborne and Gaebler paradigm dominates contemporary discourse about governmental reform, crowding out more empirically grounded analyses that favor internal revitalization over privatization. One

such work is Michael Barzelay's *Breaking Through Bureaucracy*. Barzelay, too, is preoccupied with the lackluster and sometimes maddening performance of government, but his prescriptions concentrate on improving public employee creativity and flexibility rather than privatizing services.

Barzelay also takes his evidence from real world practice, but from an intensive and painstaking study of just one initiative—Minnesota's Striving Toward Excellence in Performance (STEP) program. Barzelay, too, invokes the customer service model but applies it to the internal working of the bureaucracy, especially in relationships between the staff agencies (accounting, personnel, purchasing) and the line, or service delivery, agencies. In Governor Rudy Perpich's Minnesota effort, central bureaus were asked to consider line agencies their customers, attending to their needs and evaluating how well these were met. Agency service teams were set up, scrapping models of performance based on narrow and separate technical functions.

The internal bureaucratic politics of the Perpich story are illustrative. In 1976, in his first term as governor, Perpich set up a highly touted Task Force on Waste and Mismanagement, charged with cost-cutting and the introduction of business-like practices into government. Among other things, this task force proposed a curtailment of training programs, a moratorium on the purchase of filing cabinets as a way to reduce paperwork, and a ban on electric coffee pots in state office buildings, on the grounds that this would save cleaning bills for coffee-stained carpets. These recommendations, which Barzelay calls "employee beating," may have contributed to the governor's election loss two years later. Reelected again in 1982, Perpich took another tack, this time directing his deputies to improve the management of state government rather than to reduce its costs.

The result was a series of initiatives that offered employees greater opportunities for flexibility and the exercise of discretionary judgment. Barzelay documents how employee participation and productivity in state government subsequently increased in tandem. While Barzelay's claim to have conceptualized, with his collaborator Babak Armajani, a new "post-bureaucratic paradigm" seems overstated, his book offers interesting ideas about how to motivate managers and encourage internal creativity. He takes pains to distinguish between "the often-conflated concepts of developing a customer orientation and introducing marketlike processes into government." In this, he parts determined company from the *Reinventing Government* formula and offers a more satisfying vision of progress.

Barzelay's book is methodologically superior, too. He offers a fascinating historical retrospective on the crossover of private sector business innovations, both past and present, into public sector reform. His book is refreshingly self-conscious about the importance that language, metaphor, and argumentation play in the overhaul of bureaucracy. In evoking the customer-driven metaphor, for instance, he acknowledges that there may be more than one group of stakeholders. And unlike Osborne and Gaebler, who uncritically accept the claims of their public sector entrepreneurs, Barzelay investigates both the enthusiasms of program reformers and the complaints of STEP critics.

Barzelay's book cogently demonstrates that fostering genuine empowerment in the public workplace has far greater potential to transform public sector service delivery than using the threat of competition to create fear of job loss. In our experience, fear is far more often a factor that demoralizes and hence demotivates workers over the long term.

Though *Breaking Through Bureaucracy* covers just one intensively researched case, many other success stories around the country support his conclusions. In Madison, Wisconsin, the city government has boosted employee morale and reduced costs in several departments as a result of a joint labor-management total quality management program that draws extensively on employees' experiences and ideas. New York City's Bureau of Motor Equipment dramatically reduced the amount of time vehicles are out of service by shifting controls of the maintenance process to frontline workers. An Illinois state prison all but eliminated last-minute mandatory overtime assignments, which took a huge toll on employees' personal lives, through a labor-management program that revamped the system for overtime assignment. That initiative produced an unexpected cost savings as well—absenteeism and reliance on overtime declined. These examples offer not only support for a model with better prospects for genuine public sector renewal, but also a far more humane vision of what work can and should be.

Beyond any doubt, there are severe strains on democracy in a society as complex and bureaucratic as our own. But in our view, the continuous reinvigoration of the democratic process is one of the most critical tasks we face as a nation. Stimulating greater involvement of citizens in deciding what services government will provide and how they can best be provided must be recognized as the crucial underpinning of reform, not dismissed as it is in the pages of *Reinventing Government*.

There is no way to separate government from politics, operations from substance. Frustration with government is not just a function of its rigidity or inefficiencies. People are unhappy with government performance for more important reasons—the burgeoning of poverty and urban decay and the decline in people's real incomes and therefore ability to pay taxes, both of which are products of market forces in the private sector and both of which contribute to the Herculean task confronting the public sector. State and local programs have been under siege for more than a decade due to federal government spending cuts. Federal social spending, housing, and infrastructure programs languished while the military budget grew by 50 percent in real terms.

No wonder citizens with fewer resources and greater demands are dissatisfied with government. No wonder public servants are demoralized. What we need is a government that respects citizens and public employees alike, that is honest about the difficulties that face this nation, and that relies on cooperation and positive incentives, rather than fear, as a reshaper of bureaucracy. Only with an innovative and committed public sector and an aroused citizenry can we face up to the real task—not reinventing government on market terms but reinventing democracy as a social order.❖

Government Lite

Laurence E. Lynn, Jr.

Making government work better is newly fashionable. Bashing bureaucracy has been popular since Richard Nixon's presidency and has grown in popularity with voters frustrated by deficits, an uncertain economy, and "politics as usual"—and egged on by opportunistic politicians. The idea was given a positive spin in David Osborne and Ted Gaebler's *Reinventing Government*. Their upbeat principles put administrative reform on the political agenda and even in airport book shops. The reform bibliography has since lengthened, capped by *From Red Tape to Results: Creating a Government That Works Better and Costs Less*, Vice President Al Gore's report on the administration's "National Performance Review" of federal administration.

Liberals, of course, have a major stake in effective government, for government is the necessary instrument of liberal purposes. When activist government fails, conservatives can smugly say, We told you so. Achieving a humane and just state requires effective public agencies, capable leaders, and sufficient executive power to define and execute a compelling vision of economic opportunity and social justice. When welfare departments, public transit systems, and public schools fail to perform, their failures not only discredit sensible policies but also undermine faith in government and feed the urge to shrink and privatize it.

Yet liberals have been less than enthusiastic about administrative reform. Perhaps this is because recent reform agendas—the postwar Hoover commissions, Lyndon Johnson's planning-programming-budgeting system (PPBS), Nixon's management by objectives (MBO), Jimmy Carter's zero-base budgeting (ZBB), and the total quality management (TQM) movement—seem ephemeral to the

WORK DISCUSSED IN THIS ESSAY

National Performance Review, *From Red Tape to Results: Creating a Government That Works Better and Costs Less* (The Gore Report), 1993.

ongoing challenge of creating liberal policies. Perhaps it is because government reform is so difficult and politically unrewarding. Perhaps it is out of deference to public employee unions or out of fear of executive imperialism. For too many liberals, policies are what matter, not bureaucracies.

This stance is, of course, self-defeating. As Steven Kelman has argued in these pages ("The Renewal of the Public Sector," Summer 1990), "No serious advocate of a positive role for government can any longer ignore the challenge of the renewal of the public sector." But is reinventing government the right bandwagon to jump on? Is the Gore report a plausible blueprint?

Whose Ox is Gored?

"As our title makes clear," says Gore in his preface, "the National Performance Review is about moving from red tape to results to create a government that works better and costs less." The problems with government as we know it are several, says Gore. One is "enormous, unseen waste." A second is the ineffectiveness of the programs churned out by the legislative process "one after another, year after year," with no thought given to their design, resulting in a "performance deficit" that has alienated the public.

These are only surface manifestations of a deeper problem: reliance on "large, top-down, centralized bureaucracies to do the public's business," most of them "monopolies, with few incentives to innovate or improve." For the most part, bureaucratic accountability is about punishing mistakes. As a result, these bureaucracies have become rule-bound, with failures of control begetting more controls, producing "a culture of fear and resignation."

The solution to this deeper problem is "entrepreneurial government" based on four "bedrock principles": cutting red tape, putting customers first, empowering employees to get results, and cutting back to basics—producing better government for less. These principles are indivisible: "To create organizations that deliver value to American taxpayers, we must embrace all four." But "we need not jettison the traditional values that underlie democratic governance—values such as equal opportunity, justice, diversity, and democracy. We hold these values dear. We need to transform bureaucracies precisely *because* they have failed to nurture these values." The vice president claims that the recommendations will save $108 billion over five years. "We also expect that the reinventions we propose will allow us to reduce the size of the civilian, non-postal work force by 12 percent over the next five years [and] bring the federal work force below two million employees for the first time since 1967."

The bulk of the Gore report comprises chapters elaborating each of the four principles. First, the report offers six steps "to strip away the red tape": streamline the budget process, decentralize personnel policy, streamline procurement, reorient the inspectors general toward a focus on performance, eliminate regulations, and deregulate state and local governments. Each step is spelled out as a program of changes that range from the revolutionary (biennial budgets and appropriations) to the esoteric (end the use of full-time-equivalent personnel ceilings to control costs). Most are general and hortatory, a pattern reflected in subsequent chapters: "Dramatically simplify the current

[personnel] classification system."

The aim of putting customers first, the second principle, is to "imbue the federal government—from top to bottom—with a driving sense of accountability." The idea is to end government monopolies by "transplanting some aspects of the business world into the public arena." With a bow to the quality revolution sweeping American businesses, four specific steps are proposed: giving customers a voice through regular solicitation of their views, making service organizations compete in service delivery, creating market dynamics in areas where government monopolies do serve the public interest (like air traffic control), and using market mechanisms instead of new programs to solve problems (as in pollution reduction and public housing).

Empowering employees to get results, the third principle, requires a "culture of public entrepreneurship." The idea, again obeying "the quality imperative," is *"to do everything smarter, better, faster, cheaper."* To accomplish the necessary transformation of employee motivations, decision making will be decentralized, replacing process compliance with accountability for clearly understood, feasible outcomes; employees will be trained in cutting-edge technologies; the quality of work life will be improved by initiating family-friendly policies and abolishing the time clock; the adversarial relationship between unions and management will be ended; and, to advance these steps, the government's top managers will assume responsibility for their implementation.

The final principle, cutting back to basics, obviously won't occur by targeting programs for extinction, Gore argues; everybody's tried that. Instead, cultural changes will create incentives to streamline programs and reduce costs. This re-engineering of government would require seeking an item veto, closing or consolidating field and regional offices, selling or eliminating programs ranging from the Alaska Power Administration to the President's Intelligence Oversight Board, raising user fees and collecting debts, authorizing the creation of innovation funds, and expanding the use of new technologies.

A concluding chapter candidly warns of the discomfort such a transformation will engender and outlines steps already under way: reinvention teams and labs in every department, performance agreements with cabinet officers, and establishment of the President's Management Council. For inspiration, the report quotes Daniel Burnham's exhortation to "make no little plans."

Reactions, Over- and Under-

Published with extraordinary fanfare, the Gore report was bound to be controversial. It is too easily dismissed as just another naive assault on the bureaucratic fortress and too easily embraced as an administration commitment to cutting the size and cost of government. Both responses trivialize the report's significance.

Pregnable Bureaucracy. The notion that ours is a top-down, unaccountable bureaucracy is a myth. Because of the inherent tensions between the branches of government, a tension designed into our Constitution, Americans were never fated to have the kinds of impenetrable and ultra-professional bureaucracies like those in Europe and Japan. Our democratic institutions lead

an examined life. The need to make government work better is a leitmotif of American politics, and throughout our history the meaning of "reform" has oscillated between depoliticized professionalism and greater democratization.

The first successful reform movement was led by Jacksonians, who, contesting the elitism of the Federalists, installed the spoils system and the long ballot to bring government closer to the people. After rampant abuse of patronage by political machines, counter-reform in the 1880s instituted the civil service. Reforming spoils politics and strengthening administrative capacity were salient issues with business, professional, and middle-class urban voters who were to coalesce into the Progressive movement. With intellectual support from political scientist Woodrow Wilson, Progressives worked to separate politics from administration by creating a corps of neutral, competent civil servants efficiently organized into bureaus. The "bureaucratic paradigm," as Michael Barzelay calls it in *Breaking Through Bureaucracy*, was a hierarchical, specialized, professional, and honest public administration.

It is important to note, however, that the bureaucratic paradigm included accountability for performance. For government to be efficient, said Woodrow Wilson in *The Study of Administration*, "it must discover the simplest arrangements by which responsibility can be unmistakably fixed upon officials." The Taft Commission of 1912 advocated performance budgeting, as did the first postwar Hoover Commission in 1949.

But from the Progressive era through Nixon's New Federalism, the growth of a permanent government of proliferating bureaus staffed by tenured civil servants has been countered by moves to strengthen political control over administration through executive budgets, strong central offices staffed by patronage, authority to reorganize, and agency administration by political appointees subject to legislative confirmation.

Seen against this history, the Gore proposals are another in the succession of moves to strengthen executive command of bureaucracy. Of course, executive power has to be checked by the courts and by legislatures, which have sought to maintain the balance of political power by increasing their advisory role and their oversight and analytic capacities. The most acute analyses of policy implementation are done by agents of the Congress: the General Accounting Office and the Congressional Budget Office (CBO). As a result, America's bureaucracy, far from being an impenetrable monolith, is the most accountable in the world, and Gore's national performance review should be welcomed as another step toward constructive change rather than another quixotic tilt.

Tastes Great? Less Filling! The administration put a bullet through its own foot by equating government reinvention with cost savings. For one thing, the costs of government are notoriously difficult to project and even more difficult to control. Picking apart inflated savings estimates is easy sport for Washington's veteran budget experts in the CBO and elsewhere, and that should warn the administration off a tendency to equate success with deficit reduction. For another, government that works better in producing customer satisfaction may cost more, not less. For example, even centrist welfare reformers like Richard Nathan call for a doubling of appropriations for the

JOBS program. Welfare reform, long-term health care, day care, retraining, public investment, and the rest of even the New Democrat litany will cost more, not less. Programs often do not work well, and their customers often are unhappy with them, because they are understaffed and poorly supervised. Lawsuits against welfare and mental health agencies in many states generally require more, not fewer, resources. Even if bureaucrats can be replaced by technology, government that works better is not necessarily cheaper.

Hare or Tortoise? Some critics have faulted the report as too sweeping in its goals and too impatient in its timing. Government cannot be reinvented because it was never invented, argue John J. DiIulio, Jr., Gerald Garvey, and Donald F. Kettl in *Improving Government: An Owner's Manual*. Bureaucracy evolved bit by bit, and its reform must be similarly evolutionary, experimental, and incremental. They are correct that real change will be evolutionary, but how does a process of evolutionary change toward a specific goal get started and stay focused? Here, the administration's strategy, while risky, makes sense: attract maximum attention to the cause of reform with a bold vision and clear evidence of intent to follow through. The resulting momentum is essential if directed, incremental change is to be possible at all. Indeed, the current focus on customers and quality service is already having good results, especially in federal agencies and in states and localities where the need for good management is now taken seriously. The fanfare surrounding the Gore report has emboldened change agents everywhere, an important achievement.

What Gore Reinvents

Three issues of far greater import are raised by the Gore proposals, however. They are, first, the Gore report's concept of governance, which emphasizes entrepreneurialism; second, the logic underlying its specific proposals, which emphasizes accountability through performance measurement; and, finally, its neutrality toward the substantive purposes of public programs, which tends toward an emphasis on the technical aspects of management.

Entrepreneurial or Civic? The proponents of reinvention have stressed the obsolescence of the long-reigning Wilsonian paradigm of bureaucratic professionalization. But the apparent inertia of our bureaucracy obscures an original and enduring tension between two opposing images of governance. The first image, civic or Jeffersonian, is of the town meeting in which all citizens have influence according to their willingness to participate. This image fosters inclusiveness, deliberation, and responsiveness through the dispersal of authority, multi-directional accountability, an empowered public, and the primacy of the democratic process. The second, an entrepreneurial image that evokes the centralist and businesslike approach of Hamilton, is that of an enterprise increasing its earnings and market share through successful product development, technological advances, and a productive and well-deployed work force. This image fosters toughmindedness, efficient use of scarce resources, a commitment to shareholders, a necessary concentration of executive authority, and the primacy of results.

Recent literature on administrative reform reflects this tension between the

civic and entrepreneurial ideals. For example, among the civic idealists, Charles Lindblom, in *Inquiry and Change*, argues for a self-directing society featuring virtually continuous interchange between citizens and functionaries and a broad and rigorous competition of ideas until sufficient clarity and convergence are reached within the electorate to permit political authorities to act. In a similar spirit, Robert Reich, now the secretary of labor, advises managers to enter into a deliberative relationship with the public and its intermediaries. "You are not a policy entrepreneur," he writes in *Public Management in a Democratic Society*. "But neither are you a neutral and passive public servant. . . . You are instead a participant in an ongoing public deliberation about how problems are to be defined and understood, what the range of possible solutions might be, and who should have the responsibility for solving them." In *The Spirit of Community*, Amitai Etzioni advocates the mobilization of "under-represented majorities" to create a politics of change after the model of the Progressive movement "to shore up our values, responsibilities, institutions, and communities" and, in behalf of a genuine public interest, decimate the special interests that dominate political life.

The opposing image is executive-led government that is entrepreneurial in the style of what the Kennedy School's Alan Altschuler, in his preface to *Breaking Through Bureaucracy*, calls the new business managerial vision. This image is reflected in the recent reinventing government literature. The movement's awe of business practice is carefully concealed—Osborne and Gaebler, Barzelay, and others take great pains to cite examples drawn from recent government experience and say that government isn't a business—but the spirit, as the Gore report acknowledges, is the Hamiltonian one of looking to successful executives.

Thus though Osborne and Gaebler are rightly credited with giving focus to the contemporary movement for government reform, the progenitors of the movement are Tom Peters and Robert Waterman. Their *In Search of Excellence* first proclaimed the virtue of "fawning on customers" and argued for replacing the reigning rational model of hierarchy and control with an intuitive view of managerial leadership. These values are most clearly reflected in Barzelay's *Breaking Through Bureaucracy*. He, like Peters and Waterman, argues for replacing the old Wilsonian paradigm with a new, post-bureaucratic paradigm. His government agencies are "customer-driven service organizations" that empower ordinary employees to produce tangible results for citizens-as-consumers of public goods and services. Value is the imperative.

Widely credited to Osborne's inspiration, the Gore report is briskly entrepreneurial. In a curiously worded passage, the Gore report actually seems skeptical about community power. "By 'customer,' we do not mean 'citizen.' A citizen can participate in democratic decision-making; a customer receives benefits from a specific service. . . . In a democracy, citizens and customers both matter. But when they vote, citizens seldom have much chance to influence the behavior of public institutions. . . . Citizens own their government, but private businesses they do not own work much harder to cater to their needs." So, in Gore's conception, not only must government redefine citizens as customers, but citizens must redefine *themselves* as customers demanding a government

"worth what [they] pay for it."

By seeking to mimic the most entrepreneurial business organizations and recast citizens as customers of the great governmental Kmart, however, the Gore blueprint glosses over the challenge that entrepreneurialism poses to the principle that government's unique role is to promote the common good and protect citizens from the arbitrary and capricious exercise of power and the abuse of fiduciary trust. There is a reason why ours is a government of laws and not of autonomous, bottom-line entrepreneurs: unmonitored power is often abused and entrepreneurial zeal is often misdirected, and citizens are the losers.

Performance Anxiety. The entrepreneurial advocates are right, however, in saying that accountability to citizens does not automatically require layers of hierarchy and truckloads of rules. In *Mandate for Change*, David Osborne's chapter argues that performance measurement is the essential ingredient in reinventing government: if you "define agencies' missions and goals, measure how well they achieve those goals, and develop budget and pay systems that reward organizations for success," public employees will become obsessive about reliable, efficient performance because they have *no choice*. Indeed, the key idea in the report seems to be that entrepreneurial government is made accountable to democratic values by performance measurement.

To obtain appropriate goals and measures, we cannot rely on the same political processes that cause the problem. Thus in an ostensibly anti-Wilsonian program we discover, ironically, the Wilsonian impulse to professionalize and depoliticize. Gore assigns to the Office of Management and Budget the role of setting up the new system. Osborne would go much further. In *Mandate for Change,* he proposed a National Information Agency to "improve the federal government's capacity to collect, analyze, and disseminate data"; a Performance Review Office insulated from political pressure to help agencies develop performance measures; a Program Design Office within OMB to "hire experts, gather and sift the relevant literature, and begin to articulate design principles that underlie success"; and a Sunset Commission to "review all programs and regulations to determine whether they should be reauthorized."

The explanation for this irony lies in different meanings of performance in the Wilsonian-bureaucratic paradigm and in the Gore approach. In the former, performance means activity—the work to be done or the service rendered—and performance measures are chosen to gauge government productivity—the measurable output achieved per unit of budgetary input. In the reinventing government lexicon, performance means results, defined in the Gore report as "measures of how government programs and policies affect their customers."

If there is fatal flaw in the performance logic, it is in the notion that performance measures can somehow short-circuit the political process and be made precise and unambiguous. To see the weakness of this logic, it will prove helpful to turn to the most politically unlikely of fields, mathematics.

Mathematicians have a notion called algorithmic complexity, the shortest set of instructions that will generate a given sequence of observed outcomes. A string of random numbers is extremely complex because its generation requires instructions as long and complex as the sequence itself. Far simpler

are the laws of physics, highly compressed mathematical formulas from which vast numbers of accurate predictions concerning the natural universe can be generated. Thus complexity is equivalent to a lack of order and predictability. The goal of science is algorithmic compressibility, simpler ways to represent and predict natural phenomena.

The problem with government, in these terms, is that its outcomes are too disorderly, even random, because the instructions that generate them—the red tape—are too complex: hundreds of thousands of pages of statutes, regulations, guidelines, court rulings, job descriptions, bulletins, and so on. As Clinton and Gore showed in releasing the Gore report, it takes forklifts to hoist them. The goal of systematizers from Taft to Reagan and now Clinton and Gore has been to compress the governmental algorithm into simple executive instructions—perform or else—that will create unambiguous, efficient order and, it is presumed, greater satisfaction all around.

But neither citizens nor politicians behave like atomic particles. We cannot combine them according to logical formulas and produce predictable reactions. One need consider only the proliferation of subcommittees, interest groups, lobbyists, and special government districts to understand why there is disorder and unpredictability in government. Citizens—as employees, members of interest groups, taxpayers, investors, parents, residents of cities and neighborhoods—organize and press for special attention. And the system responds, if not voluntarily, then after being taken to court. Thus chain reactions of political activity create new molecules of political interest that add to governmental complexity and to performance ambiguity.

Even more than before, the goals of most public policies are complicated and ambiguous, the means for achieving them uncertain, the conflicts of interest intense. Choosing measures of performance and collecting relevant data sounds easy until you confront the complexities associated with virtually every area of government activity. Indeed, budget expert Allen Schick observes in *The Washington Monthly* (September 1993), "They've got so much data on performance already that they don't know what to do with it." Even a sympathetic General Accounting Office concluded recently that "performance measures have not attained sufficient credibility to influence resource allocation decisions."

If not ignored, performance measures are diluted until every zealous interest is mollified and simple order is destroyed. Why isn't a national student achievement test already turning schools into engines of high performance? Consider the Clinton administration's union-supported counterproposal to measure school delivery capacity instead of academic achievement. (You can't hold a teacher responsible for student achievement if the teacher lacks resources and autonomy and has overcrowded classrooms.) From legislators, we will begin to hear, "I don't care what the experts say; who knows better if a program is needed and how well it is performing than the citizens in my district?"

Finally, there is little genuine political pressure to allow bureaucrats to be more entrepreneurial and experimental with public funds. Instead, there is a great deal of pressure on them to cover their posteriors. Americans want their

taxes to be low and used only for collective goods they value; they want the services they receive to be on time and inexpensive; they want to be heard when they are dissatisfied; they want administrators to be honest, knowledgeable, fair, and competent. Beyond these, they want to be left alone. It is unlikely that citizens with these attitudes will agree with Gore that "we must let our managers and workers fail . . . we must learn to let go."

What Is Being Managed? The final significant issue raised by the Gore report is the utility of assuming neutrality toward policy. "The National Performance Review focused primarily on *how* government should work, not *what* it should do." As an exercise, this is not unreasonable. It permits identification of generic management problems and generic tools to solve them. The danger lies in overemphasizing the technocratic aspects of public management, thereby disassociating the tasks of political and administrative leadership from the technical aspects of management, a mistake I called in an earlier book (*Managing the Public's Business*) "management without managers."

Nonetheless, effective public management is ultimately measured by the success of public policies. Public policy implementation, is not, in fact or even metaphorically, a business; putting customers first is not the same as putting the needs of citizens first. Fairness, just treatment, opportunity, security of person and property, participation in social deliberations, rule of law: these are the generic goals of government. They cannot be achieved solely through markets nor measured by highly compressed algorithms.

Liberal administrative reform, then, should focus on ensuring that government can deliver on the promise of economic opportunity and social justice in meeting the goals of liberal legislation. Programs that liberals endorse must perform well, whether they serve disadvantaged individuals, families, and communities—like welfare departments and public transit agencies—ensure environmental survival and prudence in national security, or protect individuals from predatory business practices and promote their legitimate rights. For the 384 recommendations in the Gore report, the right question is: will they advance liberal policy goals?

A great many of them will. Recommendations such as "allow agencies to create innovation capital funds," "clarify the goals and objectives of federal programs," and "develop an agreed-upon approach for dealing with management failures, crises, and chronic program difficulties" will simplify and refocus program activity, free up resources for better uses, and promote energetic and creative behavior by public officials. But effective public managers will recognize that the reinvention system in the form of 384 recommendations is not the solution any more than PPBS, MBO, ZBB, or TQM are the solution.

Consider the Gore report's recommendations to "eliminate at least 50 percent of all congressionally mandated reports" and "to reduce by at least 50 percent the number of internal regulations, and the number of pages of regulations, within 3 years." By themselves, they make no policy sense. They could just as easily have been endorsed by Nixon, Reagan, or Bush, and they could actually hinder liberal purposes by reducing the administration's ability

to establish and enforce policy goals. So they must be measured against their impact on specific policy objectives. For example, will reducing paperwork cut Medicare and Medicaid costs without restricting access to care?

At the same time, promoting good management in large public agencies may require an occasional break with traditionally liberal power bases—public employee unions, teachers, and so on—in order to achieve efficient, mission-oriented programs. Still, it is better that system improvements be designed by people committed to liberal principles than by those for whom arbitrary results, such as fewer pages of regulations, are ends in themselves.

Finally, liberal administration is necessarily entrepreneurial in that it requires sufficient concentration of executive power to offset the particularism and favoritism of local, highly fragmented interests. As Paul Peterson argued in *City Limits*, local government is, because of competition for revenue-generating industry, biased against distributive justice. An important liberal responsibility might well be to insist on restoring Hamilton's vision (in *Federalist* 70) of energy in the political executive as "a leading character in the definition of good government." The Gore report already has been catalytic, and public administration is enlivened by a palpable new energy. Properly mobilized on behalf of good policies, the movement to reinvent government will enter the history of administrative reform as a useful step forward.◆

HEALTH POLICY FROM HARVARD

Private Choices and Public Health

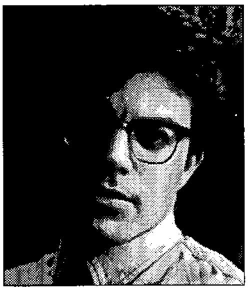
The AIDS Epidemic in an Economic Perspective

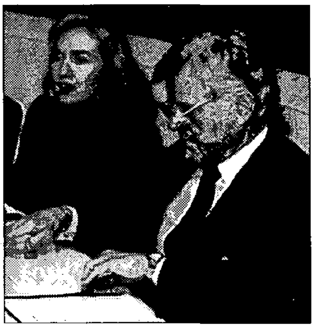
Thomas J. Philipson and Richard A. Posner

Philipson and Posner employ the tools of economic analysis to reassess the standard epidemiological model of AIDS transmission. They examine regulatory measures and proposals such as mandatory testing and immigration control, the subsidization of AIDS education and medical research, the social and fiscal costs of AIDS, the political economy of the government response, and the interrelation of AIDS and fertility risk.

Neither liberal nor conservative, yet on the whole skeptical about governmental involvement in the epidemic, this book is certain to be controversial, but its injection of hard-headed economic thinking into the AIDS debate is long overdue.

$29.95 cloth





The Future of Health Policy

Victor R. Fuchs

In this book Victor Fuchs, America's foremost health economist, provides the necessary concepts, facts, and analyses to fully comprehend the complicated issues of health policy. The future of U.S. health policy, Fuchs argues, is tightly linked to three basic questions. First, how can we disengage health insurance from employment? Second, how can we tame technologic change in health care? And finally, how can we cope with the runaway medical costs of an aging society?

$29.95 cloth

Free for All?

Lessons from the RAND Health Insurance Experiment

Joseph P. Newhouse and the Insurance Experiment Group

In the most important health insurance study ever conducted, researchers at the RAND Corporation devised an experiment to address two key questions: how much more medical care will people use if it is provided free of charge, and what are the consequences for their health? Drawing comprehensive, coherent implications from an immense amount of data, this volume is destined to be a classic work.

$49.95 cloth

NEW IN PAPERBACK

Health Services Research

Key to Health Policy

Edited by Eli Ginzberg

"If there's one book this year that deserves to be taken out of your in-box and taken home to be savored without distraction, it's [this book]... Ginzberg brings us a wealth of rich reading from a collection of prominent health care researchers."
—Bruce Bowen, *HMO Magazine*

$18.95 paper

The Profit Motive and Patient Care

The Changing Accountability of Doctors and Hospitals

Bradford H. Gray

"In chapter after closely reasoned, meticulously documented chapter, Gray surveys the struggle between cost-control bureaucracies and physicians devoted to maintaining their prerogative...A diligent, deeply informed inquiry into a topic of unsurpassed importance."
—John D. Donahue, *New York Times Book Review*

Twentieth Century Fund Report

$18.95 paper

At bookstores or from
Harvard University Press
Cambridge, MA 02138
800-448-2242

CHATHAM HOUSE PUBLISHERS

Box One, Chatham, NJ 07928 Telephone: (201) 635-2059 Fax: (201) 635-9366

The Case for Bureaucra

A Public Administration Polemic. Third E

Charles T. Goodsell, *Virginia Polytechnic Institute and State Uni*

"Essential reading for the 1990s. Goodsell puts reinventing governmen in proper perspective. He reexamines empirical findings on U.S. bureau formance, noting how well the American system actually works."

Beverly A. Cigler, *Penn State*

"Goodsell eloquently makes the case for bureaucracy in positive, creativ strokes. He bases his discussion on surveys of citizen perceptions an tions of bureaucracy, provides a stirring defense of bureaucratic produ presents a dynamic critique of the 'reinventing government' thesis. Fe public bureaucracy have accomplished so much in so little space in manner."

Lenneal J. Henderson, *University o*

"The Christian studies the Bible. The informed atheist consults Bertrand *Why I Am Not a Christian*. Defenders of government bureaucracy, hereto as popular as atheists, depend on Goodsell's *The Case for Bureaucra*"

Richard C. Kearney, *University of Connecti*

"In an age when public choice theory has become the conventional wisdom, Goodsell offers a persuasive and powerful brief in defense of the public service. Marshaling a truckload of empirical evidence, he reveals an important secret that more often than not our bureaucracy is effective, efficient, and responsive. His iconoclastic interpretations will delight those committed to the public professions, and will enrage nearly everyone else." **David Lowery**, *UNC—Chapel Hill*

"This book is the intellectual counterweight to those whose first impulse is always to blame the bureaucracy. You cannot 'reinvent government' without understanding the argument and evidence Goodsell has marshaled in this wonderful book."

H. Brinton Milward, *University of Arizona*

"Goodsell has again taken up his lance-like pen and punctured the windmills of falsehood that squeal and creak about America's public service. Demolishing tired stereotypes, he shows us what is fact: The United States has probably the finest public service in the world." **Bradley H. Patterson, Jr.**, author, *Ring of Power*

"In the face of a great deal of bureaucracy bashing by the media, elected officials, and academicians, Goodsell has steadfastly advanced the case for bureaucracy: His book serves as an important admonition to exuberant reformers not to fix institutions that are far from broken." **David H. Rosenbloom**, *American University*

1-56643-007-0 $17.95 paper